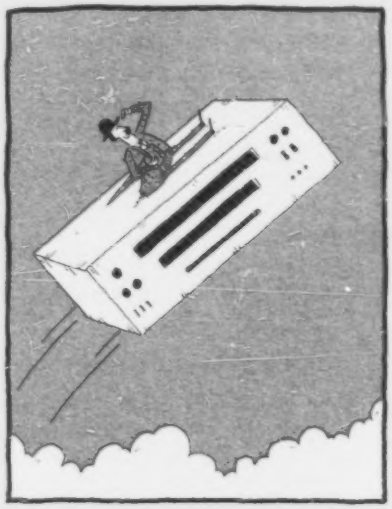
The British scene: Is the VCR rage over-rated?

If the British experience is any guideline, videophobia may well be unwarranted. To those in the U.S. media community wondering just how high up is regarding video cassette recorder usage, and its impact on television, movie and software publishing, a look at the British scene may be either sobering or encouraging. On that isle, interest in VCR's has plateaued and software producers and distributors are feeling the pinch.

Britain once looked to be the world's top video nation. About 86% of the 20.9 million British homes have a color "telly" and, starting in the late 1970's, began installing VCR's at a healthy clip. The reasons for this are many and fairly logical. Television programing is not as varied as in the States and there are only four stations to choose among. Meanwhile, movie theaters are not nearly as plentiful outside of the major cities and are relatively expensive. These factors, plus others, such as England's often poor weather and easy hardware and software rental terms, made VCR's an attractive home entertainment tool.

The penchant for VCR's was further plumbed in 1981 when Prince Charles married Lady Diana. The wedding hoopla set off an explosion of VCR and blank tape usage. By 1982 there were two million units in British homes, compared with 275,000 in 1980 and 107,000 in 1979. The machines even got people to change their purchasing habits. Instead of renting the hardware (tv is a big rental business there) British consumers began buying VCR's outright.

With that kind of enthusiasm, one could hardly pick up a paper without reading about another publishing or film company, newspaper or broadcast empire media personality or high-flier opening a business to create prerecorded titles. The talk at new media conferences was about how London — geographically well-placed and English-speaking center of technical talent with fine facilities houses — would be crowned video capital of the world. It was said video entrepreneurs would shatter the cozy duopoly shared by the state-run BBC and commercial ITV companies. "We thought it would bring something new to the screen," recalls Andrew Quinn, managing director of the cable and satellite subsidiary of the Granada Group, the tv company that produced "Jewel in the Crown."



There were 275,000 VCR's in British homes in 1980. Today, there are 7 million, or 35% of all tv homes.

The British advertising industry was also extremely concerned with the emergence of video. On one hand, they worried that regular commercials would be killed by the new medium, because zapping would undercut their effectiveness. On the other hand, they saw video offering new opportunities for advertising. "Everything seemed possible, from putting ads on prerecorded cassettes through creating video brochures to making sponsored cassettes," says Toby Syfret, head of new media at the London office of J. Walter Thompson.

Although a full 35%, or seven million British homes, already have a unit, the scenario has not gone according to script. Where prerecorded materials were expected to be the main draw — and were for a while — people then eased off on this type of entertainment. They started to tape series and programs from television instead. But then they forgot about the programs and wiped them off with other taped programs they most likely didn't watch either.

What the British experience suggests is that video is merely an add-on facility — and one not likely to revolutionize communications and habits. Today, for example, the local video shop is no longer the guerrilla of the High Street but an established venue nestled between the fruit and vegetable shop and the pub. Retailers like Steve Lambert of Video City, a software rental store in London, know they can count on a broad customer base — but a much less active one. "People used to take out three to four cassettes a week. Now it's about three a month," says Lambert.

The larger picture confirms how a slowdown happens when the novelty wears off. Hardware sales peaked at 2.2 million in 1983, then fell to 1.5 million in 1984. Even the Olympic Games couldn't budge them. This year's figure is expected to stay at the 1984 mark. But both manufacturers and retailers know it's going to be hard to win over the unconverted. "Their needs are not as avid as those who got on the video bandwagon at the start," notes John Bird, a consultant with MacIntosh International, a UK consultancy with specialist knowledge of this sector. Says Leslie Gunde, head of statistics at the British Radio and Electronics Equipment Manufacturers Association (BREMA): "It will take until the 1990's to get 60% of British homes."

The brake on hardware sales began with the agreement signed in

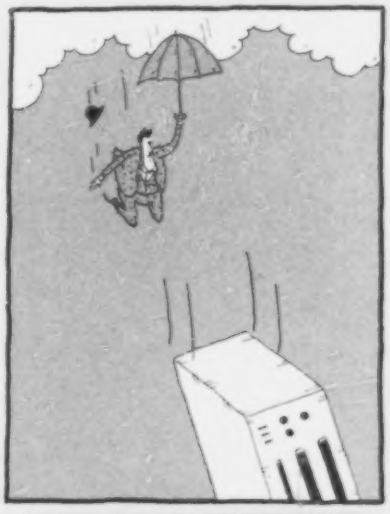
1983 between the European Economic Community and Japan, which limited VCR imports into Britain and also set a price floor in British shops for the machines. Also holding back the video revolution was uncertainty about which video format to choose from — JVC's VHS, Sony's Betamax or Philip's V2000 system. Then there were piracy problems — London was the world's headquarters for counterfeit videos and the rash of "nasties," uncensored horror and sadism cassettes such as "SS Experiment Camp."

But the public's habits have a lot to do with why the video revolution has so far failed to deliver the rich market for entertainment the British can produce. This emerged from research done by Audits of Great Britain, survey specialists who compile television ratings for the networks through the Broadcasters' Audience Research Board (BARB). It was undertaken in late 1983 after the networks and advertisers got worried by the apparent slump in their ratings and wondered whether video was to blame.

Ironically, video was not a culprit. The actual use of video was much less than expected — only six hours out of the traditional home's 37 weekly television viewing hours are taken up by video. And when the VCR was tuned on, time shifting was its usual purpose. About 3.7 hours out of the 6.0 hour VCR usage total was spent time shifting programs. However, out of every 100 programs recorded, 13 were never played back. Also surprising was that movies were not the big attraction that people thought: The most often played programs were British television series.

This helps explain the shakeout that began in late 1982, and has hit independent producers and distributors. In the last 12 months, there has been a 15% contraction in production and distribution companies, according to Norman Abbot, director general of British Videogram Association. What is everyone watching then, if not VCR materials? No one seems to know. Film attendance is up slightly, but that may be due to its being "British Film Year," and that some cinemas are offering reduced ticket prices in areas of high unemployment.

It's not surprising to realize then the networks have learned to stop worrying and live with video. One assurance is a change in how the viewing figures are compiled: From June on, BARB has included viewing via VCR tuners, which is expected to raise viewing figures by up to 3%. In fact, the television industry's concerns have moved to other matters. "Our biggest headache now is whether the BBC gets advertising," says Granada Group's Quinn, referring to a government committee just set up to review the BBC's funding. "They reach 20 million homes and would certainly get advertising from us."



Even with the Olympics, hardware sales fell to 1.5 million in 1984 from a 1983 high of 2.2 million.

And what about the advertising industry? A commonly held view now is that video is the medium that forgot about the advertiser. J.W.T.'s Syfret attributes this to the lack of sound audience research, and the poor quality control for in-store and hotel videos. "Prerecorded videos, with their low audience viewing, represent a media buy that is worth less than it costs you to make," says Syfret. Still, he remains enticed with the concept of sponsored programs, seeing these as a direct method to be included in a promotion package.

There are others who still see promise in video. For one thing, the commercial use of video cassettes and discs is becoming an integral part of UK business life. Banks and county councils are among those who use video in education, marketing, sales and other activities. Some companies now make their annual report available on video, or make videos of their staff's annual general meetings.

Others believe that specialized video is where the action lies, targeting prerecorded cassettes to minority audience groups. No matter that there have been sponsored videos, such as the cigarette company Rothman's "World Cup 1980-1982," a made-for-video mail-order compilation documentary on soccer that included rare film footage of historic games. However, like most of these made-for-video cassettes, it didn't make a huge splash. "Nobody has properly marketed these special interest videos," claims Brian Norris, former London-based lawyer of the Motion Picture Export Association of America and now head of Multimedia Management, a distribution and production company, who's planning to have a crack at it.

Who knows if British boardrooms will produce a swag of sponsors to underwrite original videos. Chances are they won't, and that video will continue to be just another way of watching the same old stuff. Life in the post-video revolution era is just about the same as it was in prerevolutionary times. In the end, perhaps, common sense should have told us that. Ralph Waldo Emerson wrote over a hundred years ago that nothing astonishes men so much as common sense. That is still true.

Isabel Bass

there are beginning to be some rules of thumb emerging. But we can't do much more than take some logical guesses and make some hypotheses."

Lowering of prices, increased software availability and the attraction of recording programs for view at more convenient times has upped VCR penetration from 10% last year to a current 23.3% of the 85.3 million tv households. First-half VCR sales topped 4.7 million units, 64% above the first six months of 1984, according to Electronic Industries Association figures. EIA's Consumer Electronic Group has increased its predictions for installed VCR's this year to 11.5 million, as compared with 7.6 million last year.

Contrary to speculation, VCR's don't choke off pay cable growth. A healthy compatability exists between the two entertainment sources.

synergy of media. One innovative cable company, Jones Intercable, for example , has begun to offer rental VCR's to its subscribers as a sign-up and usage lure.

Others say critical mass could also lead to a continued potential loss in network ratings, lost exposure for advertisers, and further problems in accurate measuring. Then there are those analysts who scoff at the notion of critical mass, saying that measurement ability does not apply to VCR's as it did to cable tv in its early days. And still others tag VCR's as simply another entertainment option which will get a piece of existing audience levels but not so much to pose a serious threat, nor a blue-sky opportunity.

Where there is agreement though is that it is retail price breakthroughs that have made VCR's so popular with all kinds of consumers. Giving a boost to manufacturers' and consumers' embrace of the machines has been the January 1984 court ruling that found federal copyright laws were not violated by home taping of tv shows. With this concern effectively removed, manufacturers and consumers moved to flood the marketplace.

The rapidity of the price cuts has surprised experts. Kagan had estimated that unit prices would drop another 15-18% this year, with shipment volume expected to rise by one million, to 8.5 units. But the increased number of units from Japan and other Far East countries has caused prices to erode faster than anticipated. Kagan accordingly has revised his projections, saying prices will drop 25% this year, dipping the cost of an average unit from $524 in 1984 to $400 by this Christmas. Wholesale outlets in New York and Los Angeles now regularly advertise Beta-system models for $250-$275 and playback-only units from Korea are expected in at $99 a unit.

Added to price breakthroughs are greater availabilities of software (pre-recorded cassettes). Home video was a $754 million business last year, large enough to vie with pay tv as a source of nontheatrical revenue. Indeed, home video manufacturers and distributors have gotten large enough to advertise themselves on tv. For instance, MGM advertises "Gone With the Wind" and Disney is pushing its "Golden Editions" on the tube.

While sales of pre-recorded cassettes reached about 20 million last year, rentals are an even bigger business. Nielsen's VCR study recently showed that in October, November and December 1984, 78% of total VCR households claimed they rented within the last 12 months. In comparison, 75% of VCR households in 1983 said they never rented. Only 22% of the total VCR households claimed they purchased cassettes in 1984.

Pre-recorded cassettes, particularly movies, are readily available in specialty stores and are appearing in bookshops, supermarkets and even movie theaters. This increased competition at the retail level has spurred lower prices for overnight tape rentals. The average rental price of cassette rentals decreased from $2.79 in 1983 to $2.46 last year, with price cuts continuing.

Such penetration increases are forcing advertisers, agencies, and programers to a crossroads vis-à-vis

Total U.S. Market Statistics
Sales to Retailers June 1985 vs. June 1984
(In Units)

Television	June 1985	June 1984	Percent Change	Year-to-date 1985	Year-to-date 1984	Percent Change
Color	1,574,790	1,388,178	+13.4	7,398,103	7,300,281	+ 1.3
Monochrome	373,742	444,915	−16.0	1,841,804	2,160,414	−25.9
TOTAL TV*	1,948,442	1,833,094	+6.3	9,239,707	9,460,695	− 4.7
Projection tv	23,606	18,504	+27.6	100,511	78,073	+28.9
Home VCR	980,221	625,238	+56.8	4,794,327	2,910,913	+62.6
Color Video Cameras	48,797	35,734	+36.5	211,991	192,181	+10.3

Information contained in this table reflects total market statistics for products produced and/or sold in the United States regardless of the brand name or country of origin.

* Excludes projection television

Source: Electronic/Industries Association

In 1984, the EIA projected 9.5 million units would be sold this year. Factoring out projected totals for institutional purposes as well as multiple units/homes, Paul Kagan Associates revised its VCR penetration projections from 7.8 million to 9 million homes this year, bringing the cumulative saturation to 26% by year-end.

With VCR penetration fast approaching the "critical mass level" (30-35%), speculation as to the impact of the technology abounds. Some media watchers say critical mass could precipitate a wealth of promotional and advertising opportunities for marketers and the potential for a complementary

10-Year Projection of VCR Units in U.S. Homes

Year	VCR Shipments to Dealers (mil.)	Sold to Institutions[1] (mil.)	Replacement of Obsolete VCRs[2] (mil.)	Multiple-Set Factor[3]	Annual New VCR Homes (mil.)	Cumulative VCR Homes (mil.)	Percent Increase	TVHH[4] (mil.)	VCR Homes % of TVHH
1985	11.0	.550	.736	1.05%	9.251	23.290	+66%	85.0	27.4%
1986	11.0	.770	1.187	1.10	8.221	31.511	+35	87.0	36.2
1987	12.0	.960	1.738	1.15	8.088	39.600	+26	89.0	44.5
1988	12.0	1.100	2.368	1.20	7.127	46.726	+18	91.0	51.3
1989	10.0	1.000	3.137	1.25	4.691	51.417	+10	92.5	55.6
1990	10.0	1.000	3.733	1.30	4.051	55.468	+ 8	94.0	59.0
1991	10.0	1.000	4.281	1.35	3.496	58.964	+ 6	95.5	61.7
1992	10.0	1.000	4.612	1.40	3.135	62.099	+ 5	97.0	64.0
1993	10.0	1.000	4.716	1.45	2.955	65.053	+ 5	98.0	66.4
1994	10.0	1.000	4.785	1.50	2.810	67.863	+ 4	99.0	68.5

1-VCRs purchased for non-consumer market (hospitals, offices, schools, stores, government, etc.).

2-Derived from PKA formula assuming 1% of each year's shipments become obsolete in their second year of life, increasing by 1% each year thereafter. (Thus 1% of 1985's shipments are obsolete in 1986; 8% more of 1985's shipments are obsolete in 1994; 45% of all 1985 shipments are obsolete by 1994).

3-The average U.S. VCR home is assumed to have 1.05 VCRs in 1985, 1.5 VCRs by 1994.

4-U.S. TV households.

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strategic planning. With so many unknowns, yet with VCR penetration so obviously an issue to contend with, advertisers and agencies now place VCR's as a strategic planning concern and not solely as a research issue.

Young & Rubicam Inc. contends that the impending attainment of a "critical mass" level will make the technology a mass medium, and a medium attractive to advertisers. Susan Bahr, manager of Y&R's New Electronic Media Group, says, "Consumers are using VCR's to watch tv differently. Having an audience base of consumers with diverse needs could give a range of advertisers various opportunities." Y&R projects that by 1990, sold cassettes will represent 25% of total transactions. "What that means to advertisers is greater frequency of program viewing, and if approached creatively, advertiser association," says Bahr.

The sticking point of course is how to get the advertisers message across. VCR owners have become notorious for fast-forwarding or editing out commercial breaks. "The challenge," admits Bahr, "is to make advertiser entries in an non-intrusive manner." she adds, "Until now VCR's have been something we've been watching and trending. But now that it's reaching mass medium proportion and usage patterns are emerging, we have a better leg to stand on. The timing is becoming more opportunistic for advertisers."

Nielsen's Lindstrom, however, argues that the critical mass theory does not apply to VCR penetration as it did to cable. "VCR's are not like cable which had to reach enough homes to be worthwhile thinking about," he claims. "Critical mass in terms of VCR's means at what point will home video become an important part of motion picture revenue streams." He further believes that in contrast to the theory that mass means higher use, "the more people you bring in, the more marginal are those new users," he says. He points out that the early adopters of VCR's tended to watch more tv than non-VCR-equipped households. These people, he suggests, are those who are more involved with tv viewing than the general population. "The heavy users of tv, those who impact viewing levels, are reached now. Those people you bring in because you've rolled back price levels are those who won't make a great impact on viewing. It's almost at the point now where it's the worse it's going to be in terms of impact."

Agencies are tight-lipped about their strategies for VCR ads. But execs concur there must be a value-added element for VCR entry.

The consumers who are currently the heavy VCR users are prime targets for advertisers. Nielsen stats show that 91% of VCR households earn $20,000 plus. Moreover, according to last year's survey, 45% of male heads of VCR households were college grads, as compared with 34% in 1983, while female college grads in those households stood at 33%. The trick is how to take advantage of the opportunity VCR's afford without turning off the consumers.

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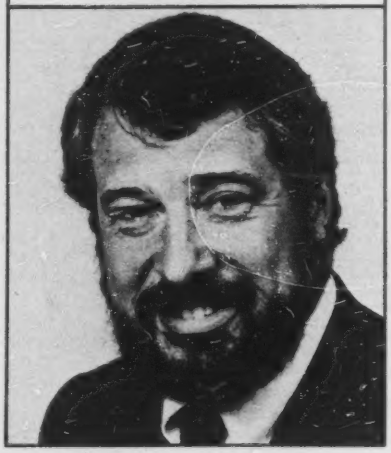
AS THEY SEE IT

MEDIOLOGY
By ALLEN BANKS
Executive vp, director-marketing services, Dancer, Fitzgerald Sample, Inc.



Is bigger better?

Television is a marvelous medium. It sells products and services and creates myths that die hard. Consider these:

"Quality audiences can only be found on affiliate stations."

"News programs always deliver an upscale audience."

"The top twenty ranking programs are the better buy."

If a myth is fictitious, contrived, and unfounded, it often crumbles under careful examination.

For example, television viewing is program, not channel oriented, and one is as likely to find a quality audience viewing on an independent as an affiliate.

Looking at news program audiences, one finds that depending on the time of day, news can be young or old, upscale or downscale.

Finally, in a time of declining network performance and high new program mortality, simplistic solutions that call for the purchase of specific programs solely because they rank among the top twenty continue to be requested. But is it a myth? Will it, too, fall apart under close analysis? Or is it a sound buying principle?

When looked at as a group of programs, as compared to the average of all prime time shows, the higher rated ones:

1) Provide some marginal benefits in the areas of visibility, composition, upscale appeal, attentiveness, light viewership, loyal viewership, and rating predictability.

2) But there are areas showing no difference: reach and frequency, recall, channel switching, and program impact.

3) And there are limitations as well: the exclusion of new programs and, potentially cost.

First, what are the benefits in buying only high rated programs? (For purposes of this analysis, and unless otherwise noted, "high rated" programs are those ranked #1-20 among women 18-49 this past February. All analyses were repeated at least once.)

Working from the qualitative to the quantitative:

- Visibility: On average, high rated programs tend to be the ones everyone has heard of, and so may be easier to promote and more likely to generate excitement among a client's dealers or franchisees.
- Composition: On average, top rated programs deliver a slightly higher concentration of women 18-49 and working women relative to total women; that is, they do a better than average job of maximizing the target audience and minimizing waste.

	Total Women	
	% 18-49	% Working
Top Rated	60%	40%
Average	58	38

NTI/Feb. 85

However, five programs on the list — *Dallas, Knots Landing, Simon & Simon, Hotel,* and *Highway to Heaven* — performed below the average prime time show in emphasizing these targets. Furthermore, shows such as *Miami Vice* and *St. Elsewhere,* lower rated but more targeted, would not have been included in the definition "top rated."

- Upscale appeal: On average, the top twenty programs deliver a higher proportion of their women 18-49 in pay cable and upper income homes.

	Women 18-49 Rating Index		
	Pay Cable	HHI $30+	HHI $40+
Top Rated	(103)	(98)	(95)
Average	(92)	(94)	(90)

NTI/Feb. 85

The skew was especially pronounced this year as NBC, always relatively strong among upscale viewers, assumed absolute rating strength as well. However, the range of indices was considerable, and not all highly rated programs performed well against those upscale women. For example, *Simon & Simon, The A Team, Riptide,* and *Remington Steele* did not index well among pay cable women 18-49, while *Knots Landing, TV Bloopers,* and *Highway to Heaven* fell down in upper income households.

- Attentiveness: On average, based on total women ratings, high rated programs show slightly higher attentiveness than the average of all programs.

Women in room paying full attention		
Top Rated	72%	(104)
Average	69	(100)

SMRB 1984

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There is, however, considerable variation by program, ranging from a low of 52% (*TV Bloopers*) to a high of 88% (*Dynasty*).

- Light viewers: On average, top rated shows based on total women deliver a higher percentage of light viewing women, but again the range is significant, from 13% for *Newhart* to 26% for *Three's Company*.

Women in Quintiles IV and V		
Top Rated	18.2%	(105)
Average	17.4	(100)

SMRB 1984

- Loyal viewers: On average, high rated programs have a higher concentration of loyal viewers — those reached 3+ times over four episodes. The range here is from 10% for the *ABC Sunday Movie* to 53-54% for *Dallas* and *Hotel*.

Of total reached % reached 3+ times over 4 episodes		
Top Rated	38%	(127)
Average	30	(100)

NTI, Feb. 85

This relationship seems to hold even when the program type variable is eliminated. For example, top rated comedies have a higher concentration of "loyal" viewers than other comedies. The value of a "loyal" audience, has yet to be conclusively established.

Predictability: On average, top rated programs deliver ratings that are closer to estimates than the average. Not surprisingly, given their established track records, these shows are somewhat easier to estimate. Once again there is considerable variation by program.

Beyond these marginal benefits, several areas show no difference between high and average rated programs.

- Average 4-week reach and frequency: Keeping the budget constant, there is no difference in W18-49 reach or frequency between the top twenty programs versus an average.

Average 4-Week W18-49 R/F/GRP	
High Rated	77.8/2.9/222
Average	77.3/2.7/211

DFS estimates

- Recall (1): Burke data show no difference in recall based on program rating.

Recall among women	
High Rated	23%
Average	24

Burke

- Recall (2): Based on Gallup & Robinson, program rating appears not to unduly influence commercial recall.

Relative recall index, adults	
High Rated	97
Average	100

G&R 1967-70, 1974-77

- Channel switching: According to Nielsen's February 1985 study of channel switching, the share of switch-outs during commercial minutes in high rated programs is the same as the average for all programs.

% switching out during commercial minutes	
Top Rated	2.3%
Average	2.4

NTI, Feb. 85

- Television audience assessment: TAA's pilot study found that programs with high impact ratings are more likely to increase the receptivity to commercials. However, no significant relationship between the size of a program's audience and its impact was found.

Finally, are there limitations in buying only top rated programs?

- New programs: Since new programs tend to be estimated more conservatively by both agencies and networks, it is unlikely that new programs will appear in a package of top rated shows. Yet new programs are the lifeblood of television, and every successful series began as a new series. Furthermore, these shows can be highly visible and receive considerable media attention. Just this past season, think of all the publicity given to *Bill Cosby* and *Miami Vice*.
- Costs: If there is no cost premium, then why not take advantage of any benefits, however marginal, that high rated shows can provide? If there is a premium, are the benefits worth it?

Clearly, the cost factor is at the heart

of the question; unfortunately, it was also the least conclusive part of our analysis.

For program selection, we went back to fall 1984 DFS estimates of the top twenty programs against women 18-49. For unit costs, we used Nielsen's November 1984 Cost Supplement, assuming that this would be closest to network pre-season pricing. We repeated the process for fall 1983.

In both years, there was a significant (20%) cost per :30 premium for buying only the top twenty programs, compared to the average buy.

However, also in both years, there was a 4% CPM advantage in buying the top twenty.

Does this imply that there is never a CPM penalty in using a high ratings strategy? Looking ahead to fall 1985, we think results will be different.

DFS projects that half of the top twenty shows this fall will be NBC programs, versus four in 1983 and seven in 1984. NBC may well be the #1 network this year, but those years as #3 put the network at a pricing disadvantage. As a result, NBC is playing catch-up this year. For example, estimating the four Thursday night NBC comedies to deliver an average W18-49 AA% of 17, with an average cost of $175,000, results in a CPM in excess of $18.00 — well above the projected average fall efficiency for W18-49.

Our conclusion? Buying only high rated programs will probably always mean higher out-of-pocket costs and, depending on individual network rankings and pricing philosophies, can also mean CPM penalties which may be significant.

So where do we net out?

Our overriding conclusion is that simplistic buying directions (i.e., buy only the top twenty programs) miss the mark in obtaining optimum value for the client's advertising dollars.

As network prices rise and audiences fall, advertisers and agencies are continually seeking ways to buy network "smarter." We feel that using rating level alone as a discriminator or selector results in a less targeted, less effective buy than using other criteria and evaluating programs for their unique contribution to the overall package.

Another myth debunked! Bigger is not better-buying — selectively is! ■

NEWSPAPERS
By HUGH O'BRIEN
Senior vp, director-media services, Bozell & Jacobs

The newspaper evolution: a parallel to tv

Throughout the last decade, there has been an enormous volume of publicity devoted to the "revolution" in the broadcast industry. A great deal has been published about three key elements of this "revolution," pertaining to (1) the technological advances themselves; (2) erosion of shares of the mass reach networks to a myriad of viewing alternatives; and (3) newly developed program formats which are "editorially compatible" with an advertiser's product and message.

As most of us have come to admit, the broadcast revolution was not a revolution at all. It was, and is, an evolutionary process.

However, with all the publicity surrounding the television medium, what has gone virtually unnoticed in many quarters is an evolution within one of the oldest forms of American communications: the newspaper industry.

The evolution in the newspaper industry has mirrored that of the television industry in many ways. Its impact may be just as great. The newspaper evolution, however, has not received the same amount of focused publicity as television. So perhaps it's time to review some of the evolutionary elements in the newspaper industry within the same reference frame as the television industry.

The technological advances made in the newspaper industry over the last few years have been dramatic. Satellite transmission has been an important element in increasing flexibility, ensuring timeliness of data and improving overall reproduction capability.

More papers have committed to an increased and improved usage of color. Advances in printing technology are making color printing more cost efficient for both publishers and advertisers. While color is still not available in a number of major markets, its availability will continue to increase, offering increased impact for readers and more opportunities for advertisers. Technology has enabled newspapers to increase usage of informational graphics, illustrated charts and drawings. A number of other technological breakthroughs in data transmission, reproduction quality and color capabilities are still in the test stage. Their combined impact will result in even more changes in the years ahead.

Erosion of shares of mass reach vehicles and growth of alternatives

Newspapers mirror television in this area also. Although newspaper circulation increased slightly in 1984, newspapers are reaching a smaller percentage of Americans. In 1974, 72% of Americans regularly read a newspaper, while in 1984 this percentage dropped to 65%.

However, this does not mean that the importance of the printed word, or the printed ad, has declined. Many alternative newspaper vehicles and forms have surfaced. Shoppers devoted entirely to advertising have increased in both number and quality.

Suburban newspapers have experienced dramatic growth. There are now over 1,800 suburban papers that reach over 23 million readers. The suburban press should continue to grow, as suburban boundaries continue to expand.

However, metropolitan dailies are not ignoring their suburban counterparts. They are increasing their number of zoned editions significantly. In addition, the metro dailies are developing total market coverage programs that use newspapers to deliver advertising circulars to subscribers, and the mail to reach the non-subscribing public.

"Alternative" newspapers — targeted to the younger upscale audience and offering an editorial blend of investigative reporting, entertainment

"The match was won by pointing out that 51.6%* of HBR subscribers are chairmen, presidents, managing directors, chief administrators and top managers."

*U.S. & Canadian Subscribers

Harvard Business Review

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and reaction, and humor — have become more viable alternatives for advertisers targeting this specific demographic and psychographic group.

In the years ahead, we can only expect the number of newspaper alternatives, and therefore advertiser opportunities, to increase.

Tailored programing/ editorial formats

The new broadcast media promised advertisers a tailored environment for their advertising messages, tailored by demographics, lifestyles and special interests. In some cases such as MTV, ESPN, CNN and the Weather Channel, this promise was fulfilled.

The newspaper industry has worked hard to provide the same kind of editorial compatibility. The suburban papers have served their respective markets through a localized — not national or international — reporting perspective. And the major metropolitan papers have addressed both reader interests and advertiser needs. Special sections, such as lifestyles, fashion, travel, gardening, expanded business sections, and the like have been developed to make the newspapers more meaningful to both the reader and the advertiser.

Local Sunday supplements carried in the newspapers have changed dramatically, too. Led by the *New York Times Magazine*, these vehicles have been enhanced, graphically and editorially, making them more like magazines than like the newspapers that carry them.

As reader interests continue to become more focused, and as advertisers continue to demand a compatible environment to reach these readers with a tailored message, the growth of specialized editorial within newspapers can only be expected to increase.

Summary

There are a great number of changes which have taken place in the newspaper industry over the last decade; indeed within the last half decade. Many of these changes have paralleled the more publicized evolution that has occurred in the television industry.

Newspapers will continue to play an important role in the lives of most Americans. However, this role may be somewhat redefined. Due to the changing wants, needs and expectations of both readers and advertisers alike, we believe that change will continue to be an integral part of the newspaper industry in the years ahead. ■

TELEVISION
By DONNA CAMPANELLA
Vice president, media director
Cato Johnson/Y&R, New York

Late night tv's flickering picture

It used to be that late night network television was regarded by many as a daypart that attracted only insomniacs, test patterns lovers, and people who like to drink a couple of pots of coffee before hitting the hay. Not any more. These days, late night is a moonlit Mecca for nostalgia addicts who crave re-runs of their favorite, but now defunct prime time programs. It also has the potential to reach those elusive, hip young adults who can't be reached adequately in other dayparts. Late night has also become a viable daypart to reach the working women whose business and social schedules don't allow for a prime time fit.

And let's not forget our traditional demographics. In addition to its skew to the above-mentioned various audience, late night is a pipeline to the average, traditional male head of household who has just tucked his 2.2 kids into their 2.2 beds, taken the dog out for a walk, hauled the 3-ply Glad bags out to the curbside, and now relaxes with Johnny Carson before returning to bed.

What makes late night so unique and so appealing to an unusually diverse audience is its unusually diverse pro-

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graming. Whereas daytime primarily consists of serials and game shows and prime time programs fare revolves around dramas, comedy and variety shows, late night defies any simple description. Late night cannot be considered a cohesive daypart and analyzed in totality like day and prime. It must be viewed as a collection of individual programs — each targted to different audiences.

Although late night network programs can potentially provide a unique and appropriate environment for segment marketing, many are on their way to becoming a "shot in the dark" for advertisers. An analysis of specific late night network programs indicates that this daypart is losing ratings among key demographics and therefore may no longer be considered a viable buy. Network "fixtures" such as *Saturday Night Live*, *The Tonight Show*, and the *CBS Late Movie*, have seen their Nielsen ratings either decline or flatten out across key demographic groups. Consider these first quarter comparisons:

Saturday Night Live

	M18-49	W18-49
IQ'83	6.6	5.2
IQ'84	6.9	5.5
IQ'85	5.9	5.4

Tonight Show

	M18-49	W18-49
IQ'83	4.2	4.0
IQ'84	4.3	3.7
IQ'85	4.3	3.7

Source: Nielsen

CBS Late Movie I

	M18-49	W18-49
IQ'83	3.7	4.5
IQ'84	2.9	2.9
IQ'85	3.0	3.2

Source: Nielsen

Even *Saturday Night Live* and *Friday Night Videos*, two teen/youth oriented programs, are taking a ratings plunge.

Given the ratings decline for this daypart among all segments of the population, is late night network still a valid media buy, and if so, for whom?

Saturday Night Live

	P12-17	W18-34	M18-34
1982	6.6	6.1	5.7
1983	5.5	5.4	6.3
1984	5.5	5.7	5.2

Friday Night Videos

	P12-17	W18-34	M18-34
1982	--	--	--
1983	2.6	2.9	4.0
1984	2.2	2.3	2.1

Even though late network appears to have all the makings of being able to effectively reach key targets, it has not been able to do so. In fact, late night network, overall, has been posting some anemic numbers.

An analysis of first quarter '85 activity for all three networks indicates an 8% decline in aggregate ratings vs. the same period a year ago. A similar story emerges when analyzing share which are down to 66% vs. 71% in '84. What's interesting to note is that while the networks are losing in the late night ratings war, independents and cable networks are reaping the benefits. Aggregate ratings for independent stations vs. network in first quarter '84 indicated a 17% increase, while cable chalked up a 19% gain. Network execs can be excused if they have a few sleepless nights. They have some tough work ahead of them. If the networks want to bounce back and recoup their leadership in this time period, a major overhaul is needed.

One must first understand what has happened over the years to cause once-popular shows like *The Tonight Show* and *Saturday Night Live* to tumble from the #1 spots in the eyes of key target groups. Programs such as these were popular because of their unique, almost irreverent form of entertainment. In the past few years, however, with cable reaching national penetration levels and the influx of VCR's, audiences are now exposed to more liberal entertainment which doesn't require the scrutiny of network censors. Thus, while *Saturday Night Live* and Johnny Carson once seemed "off-color" and provided a form of entertainment not available anywhere else, cable, pay-per-view and video cassette

rentals showcase subjects and humor deemed unacceptable by network standards.

Cable, PPV and VCR's aren't the only things chipping away at the networks' late night lair. Independents are making a sizable dent with increasingly popular programing. The number of independent stations has doubled in the last six years, with 130 of the 214 stations broadcasting general programing. While independent stations represent about 23% of all spot revenues, their commitment to programing rivals that of the networks. According to INTV, independents have spent more than $600 million for syndicated programing during the past year, compared to $400 million by network affiliates. Independents' investments have given them access to a broad spectrum of demographic targets. With the scheduling of such old time favorites as *M*A*S*H* and *The Honeymooners* during the late night time period, independents are attracting a large audience that at one time would have tuned into the networks.

In order to compete with these independents and minimize the erosion of the late night programing, the networks should heavy-up on golden oldies from their video vaults. In addition, the purchase and airing of syndicated programs at the late night hour may offer a diverse program opportunity.

Once innovative and willing to take risks in the midnight hour, the networks now appear to be somewhat conservative. A return to risk-taking may lead them to a successful program format needed to recoup their leadership position in late night.

There's probably no harm in late night maintaining its identity as a collection of programs targeted to different audience skews. But by defining the demographics and psychographics of these targets and then coupling it with some creative risk-taking, network programers can do a better job of fulfilling late night viewers "needs." More first-run movies and specials during the late night hours, for example, would provide an alternative to cable, VCR's, independents, and even dreaming.

Late night network television is undergoing sharp scrutiny from both advertisers and the public at large. If some corrective action isn't taken, this imaginative, unique daypart may become as extinct as *Supertrain* and *Thick of the Night*. I, for one, don't want to see it happen. Let the networks again make late night a viable daypart for planners and buyers to analyze in their media mix. ■

MAGAZINES
By DEBBIE SOLOMON
Media research supervisor,
Leo Burnett, Chicago.

National Sunday magazines

Call them Sunday supplements of Sunday magazines, the magazines that come in Sunday newspapers are an integral part of American weekends. Nearly two-thirds of all adults read a Sunday newspaper and Sunday magazines are part of most Sunday or weekend papers.

Sunday magazines can be broken into three groups. First come the syndicated supplements, *Family Weekly* (soon to be *USA Weekend*, and *Parade*. These two magazines are written and published by their own publishers and supplied to individual newspapers at a cost of about $7.00 per thousand magazines. The next group is the Sunday Magazine Network, a sales organization which sells national advertising in locally produced Sunday magazines. The third type is the independents, so called because they are locally produced and sold without an affiliation to any other Sunday magazine. The independents are *The New York Times*

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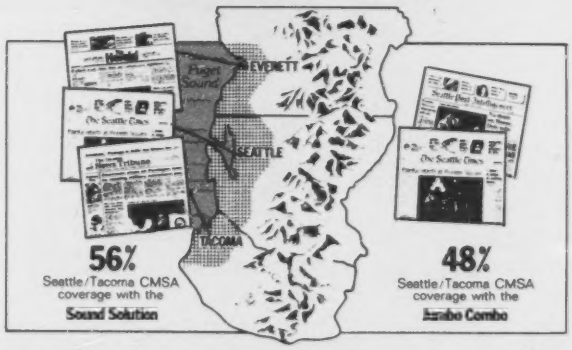

Now there's a better way to reach the over 2 million people who reside along the shores of Puget Sound. It's the Sound Solution. With The Herald, The Seattle Times, and The Tacoma News Tribune, your Seattle/Tacoma CMSA buy becomes 11% more efficient. And you can maximize your reach at a discount. For details see the Seattle Sound Unit at the beginning of Washington state's listing in SRDS.

The Herald ▪ The Tacoma News Tribune

See the Seattle Sound Unit in SRDS

Represented Nationally by Sawyer-Ferguson-Walker, Inc. ▪ 1983 Scarborough

Magazine, Los Angeles Times Home Magazine and *California Living (San Francisco Examiner and Chronicle). The New York Times Magazine* was started in 1851, making it the first Sunday magazine.

At presstime, *Parade* has the largest circulation of any Sunday magazine, over 25 million, and it is quickly getting larger. It is distributed in 135 newspapers, primarily in the larger cities. *Family Weekly* is more of a small town publication, distributed in 366 papers in B and C counties. In its new incarnation as *USA Weekend,* it has already lost a few newspapers to *Parade* because of its relationship to *USA Today,* which many papers view as competition, but it has picked up the *Dallas Times Herald* and the *Denver Post.* The Sunday Magazine Network consists of 52 different locally produced magazines across a range of larger and smaller cities including where *Parade* is distributed. While the cost of an ad in one of these publications is high, the circulation-based CPM is on the low side, about $11.00

Demographics for Sunday mags

Magazine	Male, %	Female, %	Median Age	Median HH Income
Parade	47.8%	52.2%	40.6	$26,728
Family Weekly (USA Weekend)	48.2	51.8	41.2	23,878
Sunday Magazine Network	47.7	52.3	40.2	28,132
New York Times	47.5	52.5	40.7	43,507
L.A. Home	52.8	47.2	36.7	36,784
TOTAL U.S.	47.3	52.7	40.2	22,961

Circulation, page rate and CPM

	# Papers	Circulation	P4C Cost	Circ CPM
Parade	135	25,153,000	$284,560	$11.31
Family Weekly (USA Weekend)	366	12,906,894	140,815	10.91
Sunday Magazine Network	52	22,072,184	238,307	10.80
New York Times	1	1,553,720	27,930	17.98
L.A. Home	1	1,331,666	22,125	16.61
California Living	1	706,150	13,503	19.12

Source: Leo Burnett research

Millions of people read Sunday magazines each week. Both Simmons and MRI offer audience profiles of all the supplements except *California Living.* However, their total audience estimates are based on all readers of the carrier newspapers, on the assumption that all readers of the paper read the magazine. Since we have yet to see evidence that this assumption is correct, we will discuss audience profiles but not total audience.

Sunday magazines are dual audience

Some of the smartest media buyers buy the Beacon Journal

Talk to somebody who really understands the Cleveland ADI, Jim Pockmire, Senior VP Media, Wyse Advertising, Cleveland:

"The Cleveland ADI is unusual because it consists of several sizeable cities — Cleveland, Lorain, Canton and Akron. The Cleveland television stations cover the ADI.

"But there's no single newspaper that blankets the area. If you're using newspapers, the typical approach of thinking in terms of one paper per market just won't work. While the Cleveland paper gets 35% coverage of the ADI, it's very lopsided coverage — it gets 62% of the Cleveland metropolitan area and only 5% of the balance of the ADI. By buying the Akron Beacon Journal, you pick up a substantial part of the balance, because it has 60% coverage daily and 77% on Sunday in the Akron MSA.* And you're not paying for duplication of readership, either."

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There are 570,000 adults in the Akron Newspaper Designated Area. That's a lot of buying power. The Beacon Journal can deliver the Akron market with little or no duplication. Write us for details.

Beacon Journal

44 East Exchange St. Akron, Ohio 44328 *ABC, 3/31/84

books with a very even split between men and women. Because they are read by so many people, their median age is very close to that of the U.S. population as a whole. The median incomes for *Parade, Family Weekly* and the Sunday Magazine Network are similar to the total U.S. median. Both the *New York Times Magazine* and *L.A. Home* have considerably higher than average median incomes, reflecting the more upscale nature of their markets and carrier papers.

What are the advantages to advertisers of sunday magazines? First is immediacy; everyone receives the magazine within the same two days (Saturday and Sunday) and usually reads it on those days. Another important factor is penetration; Sunday magazines generally get into 50-60% of the homes in their markets. In addition, most Sunday magazines are small, so readers will tend to get to every page. Another consideration is the potential for local retailer involvement.

On the negative side, the out-of-pocket cost to advertisers is extremely high for *Parade, Family Weekly* and the Sunday Magazine Network. To make these costs more manageable, these magazines do offer regional and local buys. In addition, *USA Weekend* is offering special discounts to "charter" advertisers.

Another criticism Sunday magazines often face is the quality of reproduction. These magazines are printed rotogravure on an upgraded type of newsprint, which does not yield the high resolution of magazines printed offset on heavy coated stock. However, the Sunday magazines are combating this problem with new improved printing techniques and high quality paper. The *New York Times Magazine* has been the leader in this area, producing its own upgraded paper and using upgraded inks. Recently, *The Los Angeles Times* went a step further. It will switch to magazine size, upgraded paper and offset printing this fall. This highly publicized switch appears to have started a trend. The *San Francisco Examiner*'s supplement will become magazine-sized and change its editorial focus in October the *The San Jose Mercury News* and *Phoenix Gazette* may follow shortly thereafter. Other papers across the country, including the *Chicago Tribune* and the *Washington Post* also are examining the concept. Advantages of the smaller size include newspapers' ability to take standard-sized magazine ads and the ability to go to offset printing (from rotogravure) which results in better quality production.

How do these formatting changes affect the syndicated supplements? *Parade* experimented with a smaller format but rejected it. *Family Weekly*, under new owner Gannett, will undergo a major revitalization this fall that will make it a magazine version of *USA Today*. A new format and new graphics are forthcoming. However, a new size is not.

Sunday magazines are making an increased effort to attract national advertisers. A new format for coupons, called a "blockbuster" by *Family Weekly* and *Parade*, can help advertisers facing increased clutter in FSIs. New features offer compatible editorial for a variety of products and services. All in all, Sunday magazines can be a viable and efficient medium for many advertisers. ■

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LA OPINION

The leading Spanish language daily newspaper in the U.S.

RADIO
By DENNIS P. McGUIRE
Spot radio supervisor,
Cunningham & Walsh, Inc.

Relying on gold

Many stations across the country are experimenting with a tried and true format that I think will gain popularity over the next few years. The format is

The selling of sight and sound

Although equipment sales have been strong, some critics think they could be even stronger if the industry learned to advertise more effectively rather than rely on price wars and fads for sales volume.

It may seem like a hot category, but to those in the consumer electronics industry, looks are more than a bit deceiving. Though factory sales shot up from $6 billion in 1974 to $23.4 billion in 1984, according to the Electronic Industry Association, observers say the rise — at least in recent years — has more to do with rampant price-cutting and the younger crowd's competitive obsession for new, tech-y type "toys," than the industry's marketing prowess. "I don't mean this negatively, but I don't feel that this is a consumer-oriented industry," confesses Lucy Sherrill, product line manager for color television at General Electric Co. "It does some stupid things."

What causes Sherrill to frown is the industry's penchant, as she sees it, for developing products that impress the competition's technicians, rather than coming up with things ordinary people need or can even use with relative ease. "The problem is that the industry constantly talks to itself; it's like they advertise to competitors rather than talking to consumers," agrees Terry Shea, editor of *Audio Times* magazine. A brand manager at one large audio equipment maker nods in assent. "A lot of the industry's advertising goes

Digital sound from Sony was featured in the rerelease of "Metropolis"

Color TV-Media Expenditures for 1984 (000)

Company	Total	Mags	Net TV	Spot TV	Outdoor	Cable	Newspaper
RCA	$16,139.1	$6,030.8	$8,773.3	$1,334.5	$0.5	–	$6,300.0
	(3,467.6)	(814.2)	(2,541.5)	(111.9)	–	–	–
Zenith	9,654.3	1,041.7	6,022.2	2,590.4	–	–	1,500.0
	(1,441.2)	–	(1,302.4)	(109.7)	–	(29.1)	–
Gen. Electric	6,742.0	–	4,975.7	1,766.3	–	–	454.0
	(1,551.7)	–	(1,388.7)	(163.0)	–	–	–
Sears	12.4	12.4	–	–	–	–	–
	–	–	–	–	–	–	–
Sony	5,928.4	12.4	3,483.0	2,433.0	–	–	120.0
	(1,042.3)	(194.1)	–	(842.0)	–	(6.2)	–

( ) = 1st quarter 1985

Source: Leading National Advertisers; Newspaper figures compiled by Media Records

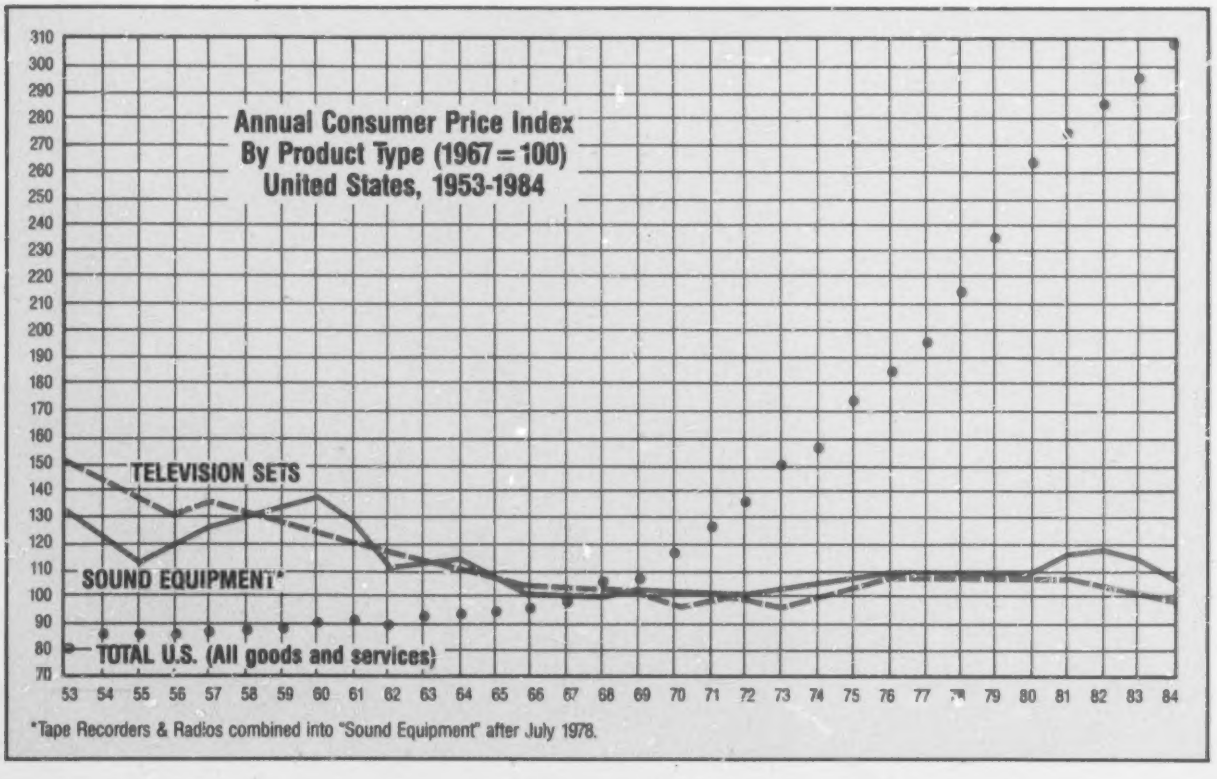
into buff books that most people don't read. It's weak in terms of broad market appeal."

Indeed, sales in the category, which includes audio and video products, computers and video games, telecommunications and personal electronics, are slackening off their quicksilver pace. The EIA projects factory sales inch up to only $23.6 billion this year, a happenstance laid to several factors — notably, that the most avid audience has already bought, while the general population is waiting for prices to fall even further and the uses of the products to become clearer.

To move the industry off this rock, makers of equipment — which in this report includes televisions, video cassette recorders, compact disc players and rack stereos — are banking on a revolution in home entertainment technologies. This sea shift will incorporate what many think are the two most important trends in the industry. One is the decline of the passive listener/viewer and the rise in consumers who prefer to control and record what they want to watch or listen to, for playback when and where they choose. The other is the increased development of audio and video products that are complementary, even interdependent, making a sort of Command Central.

Some marketers and observers worry that the industry is using dated marketing techniques to sell this increasingly sophisticated hardware. From its beginnings, consumer electronics has relied heavily on what Gordon Sell, editor of the enthusiast book, *Audio Magazine*, calls the "mentor factor" to ease products into the mass market. "People who don't know anything about it look for a friend who's an expert." He adds that "marketers blanch at our [magazine's] advertising rates, and say those are small numbers [of readers] you're giving us. But we sell word of mouth and that's an enormous factor" in this industry.

The marketing mix for these products includes other aspects of which advertising is by no means the dominant factor. The strategy for launching an innovative product, like the compact disc player for instance, often leans



*Tape Recorders & Radios combined into "Sound Equipment" after July 1978.

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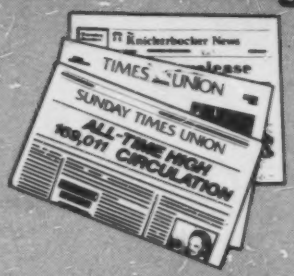

*Single insertion each: daily and Sunday Times Union, The Knickerbocker News.
Source: 1985 Simmons-Scarborough

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New York's CAPITAL NEWSPAPERS

TIMES UNION
Mornings and Sunday
Knickerbocker News
Evenings
Hearst Newspapers

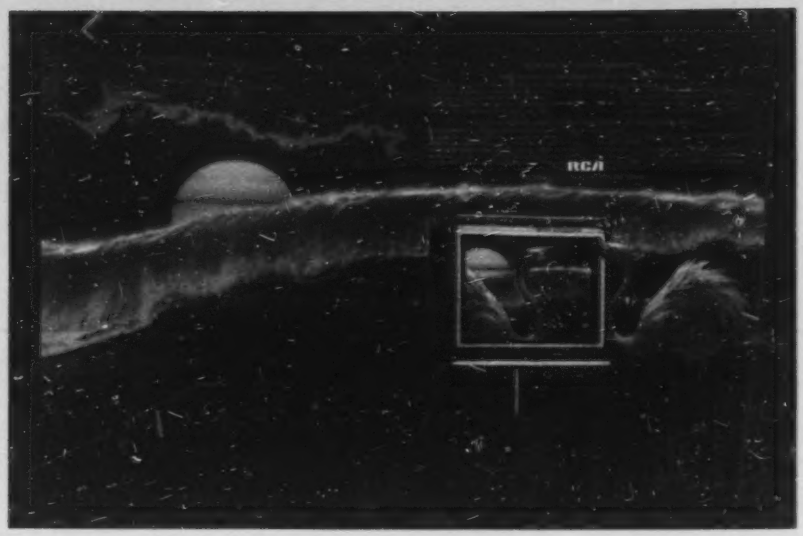
About Bulls & Bears & Savings Bonds.

When there's a bull market on Wall Street, the variable interest rate you get on U.S. Savings Bonds will let you share in those higher returns.

But if the bear takes over, don't panic; you're protected by the Bonds' guaranteed minimum of 7.5%.

So join the Payroll Savings Plan. Hold your Bonds five years or more, and you can ride the bull and beat the bear.

Take stock in America.



New wave graphics back RCA's consumer pitch.

heavily at first on good solid public relations work. The aim is to produce enough excitement, through special events, for instance, to generate reviews and write-ups in national magazines and especially in buff books. This draws the interests of the "tweeks," or high technology enthusiasts, a group without which most marketers say new consumer electronics products wouldn't ever get off the ground. Advertising is first placed in audio/videophile magazines, then in the less technical enthusiast books. Dealers, an essential link in the education as well as the sales chain, start receiving products as well as demonstration equipment and promotion material. Only at that point in the process does advertising make its way into national magazines and onto national tv. By the time the average consumer becomes aware enough of the latest example of electronic wizardry to want it, the market has been well seeded.

Even assuming a company markets its innovation successfully, conditions in this industry are so hotly competitive that chances are it won't be out there alone for more than a year or two. Competitors will soon stream in, and once this happens, price wars aren't far behind. "There are three marketing techniques used by this industry — price, price and price," states Art Levis, editor-in-chief of *Consumer Electronics*.

The price slashing can get so out of hand as to make profit margins all but disappear for manufacturers. When

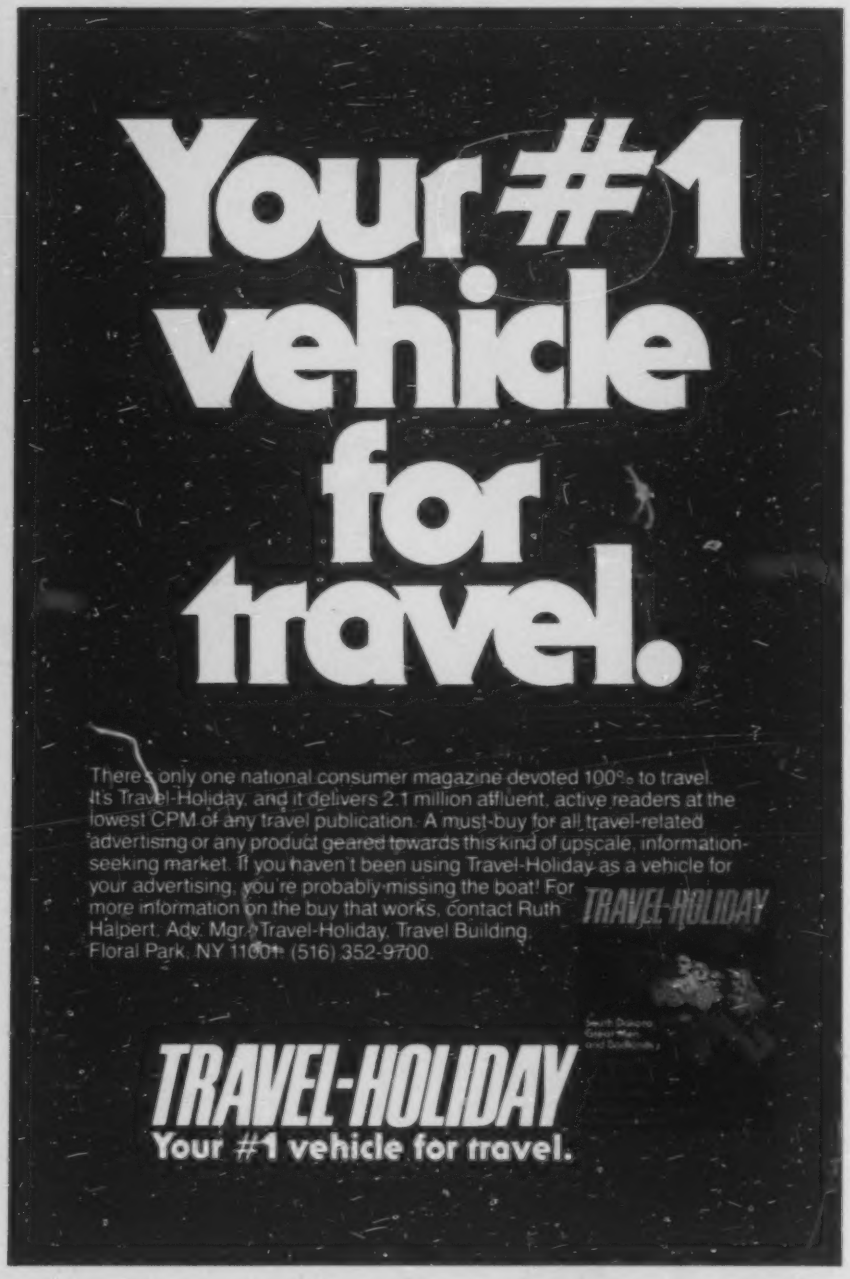
Sony shows it has a sense of style.

that occurs, advertising budget are cut. "Because there are so many competitors in this industry," explains GE's Sherrill, "it pays more attention to pricing and promotions. All that takes money away from advertising, which is what you need to stop all this. To get out of the price spiral," she adds, "you have to build brand strength."

The recent entry of low-labor cost Korean, Taiwanese and even Thai goods into the U.S. had some marketers shaking in their boots. So far, however, these newcomers are concentrating on building their images and holding onto their profit margins. "What I see them doing is trying to establish themselves first," says George Meyer, advertising manager of JVC Co. of America. They are doing it, he says, in part with the help of advertising that says: "Same quality at a slightly lower price."

Consumer electronics marketers are just beginning to consider women a factor in their marketplace. It is still, as one marketer puts it, a category where "as long as it's got a power cord and digital light and does something no one was prepared for, it's a male [purchase] decision." Is it that women find buying audio and video components much more intimidating than men do? "They both do," chuckles Yamaha's national sales manager of component systems, Bruce Market. "But females will admit it. Males, with their macho images, won't."

The following describes the marketing/advertising strategies of the top five brands, in major electronic categories.


Your #1 vehicle for travel.
There's only one national consumer magazine devoted 100% to travel. It's Travel-Holiday, and it delivers 2.1 million affluent, active readers at the lowest CPM of any travel publication. A must-buy for all travel-related advertising or any product geared towards this kind of upscale, information-seeking market. If you haven't been using Travel-Holiday as a vehicle for your advertising, you're probably missing the boat! For more information on the buy that works, contact Ruth Halpert, Adv. Mgr., Travel-Holiday, Travel Building, Floral Park, NY 11001 (516) 352-9700.
TRAVEL-HOLIDAY
TRAVEL-HOLIDAY
Your #1 vehicle for travel.

Television

With televisions in 49 out of every 50 American homes it could be called a mature market. Yet more changes are taking place in tv design now than have occurred over the last 15 years. The rounded picture tube is out and square-cornered is in. Tube surfaces are flatter. And bigger screens are being squeezed into ever slimmer cabinets

In a move into the modern age, consumer electronics are just beginning to consider women a factor in the market.

(for example, a 25-inch screen is now housed in roughly the same size frame a 19-inch tv used to come in). Newer products, such as projection tv's have shown excellent sales gains. According to the Electronics Industry Association, factory sales of these big-screen sets — ranging in size from 37 inches to more than eight feet diagonally — totaled $268 million in 1983 and will grow to $488 million by the end of 1986. Excitement is also being generated by digital television sets, which promise a sharper picture as well as two-shows-at-once split screen capabilities. The first such sets are only now just hitting the market.

But, says a spokesman for RCA, "the news in video is, of all things, *sound*." Many manufacturers believe the day of multichannel television sound, or stereo tv, has dawned. MTS not only allows the viewer to hear shows broadcast in stereo, but allows for a bilingual transmission of a show, potentially a big plus for Hispanic au-

diences and advertisers, for example. By the end of the year, the EIA predicts, every U.S. household will be in range of at least one stereo signal broadcast by perhaps as many as 200 stations. Currently, only 60 stations broadcast stereo shows and the only commercial network involved is NBC. Viewers can now only hear *The Tonight Show* and *Friday Night Videos* in stereo, but the network hints that *Miami Vice*, among others, may be part of the fall stereo lineup.

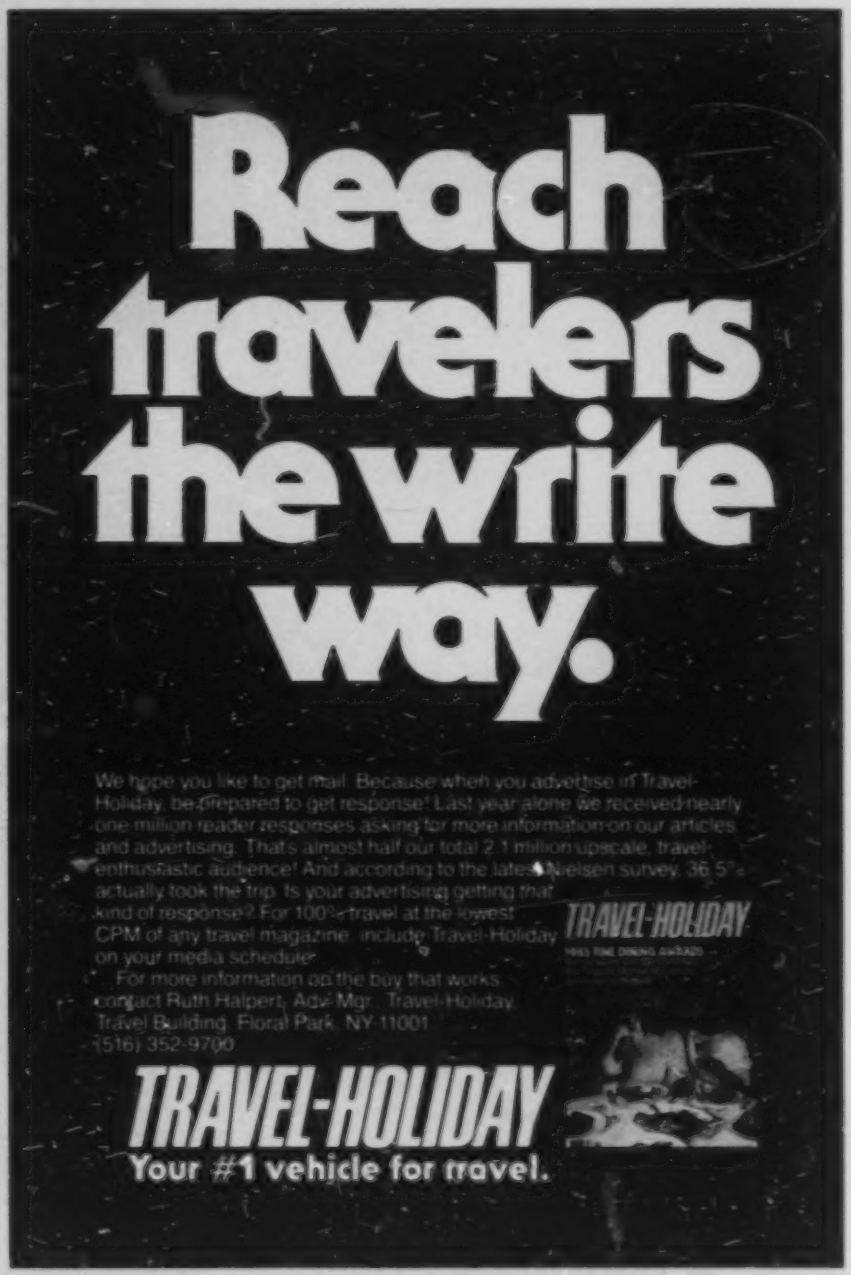
Televisions are in 49 out of every 50 homes in America. The challenge now is to get consumers to trade up.

The work horse of not only the television industry but of the entire consumer electronics industry is the color tv. Since the first sets were plugged into American homes in 1954, factory sales of color tv's have grown to represent 25% of the dollar volume for the entire industry. The number of units sold increased in 1983-84 from 13.9 million to over 16 million, according to the EIA, while dollar volume only rose from just over $5 billion to $5.53 billion. Low prices have consumers replacing old sets faster, or not hesitating to get that second or third tv. And mini color tv's that go anywhere and can run on batteries are gaining in popularity as well.

But all that competition does not bode well for companies' bottom lines. "Even though in some quarters sales may be up and things may seem prosperous," laments William Beres, vice president of advertising and sales promotion at RCA, "it is a profitless prosperity." While unit sales are expected to reach 16.2 million in 1985, the association predicts dollar sales totals will drop back to $5.3 billion, and continue to decline through 1986. Price gouging, especially in the realm of the best selling 13-inch and 19-inch screen models (40 different brand names offer the 19-inch size alone) where competition is keenest, is knocking the bottom out of profits. Now, says RCA's Beres, "the consumer is used to getting so much for so little."

RCA Corp. dominated the 1984 color tv market, as it has for a number of years, claiming a 19% market share of units sold, according to *Television Digest*. The trade publication projects that share will fall to 18% by the end of this year. The company currently markets 67 models of color tv's. It's 1984 advertising budget of nearly $17 million leapt from 1983's figure of just over $7 million, according to Leading National Advertisers, reflecting a new line of sophisticated and expensive (up to $7,000) audio video equipment. Beres says that the company has cut down on promotions and special offers for its tv's in an effort to emphasize the company's more innovative products and give it more of a high technology image.

Beres says that 70%-80% of the dollars are used for national tv buys, on prime time, late night and news shows. RCA also advertises its color tv line in national magazines like *Esquire*, *National Geographic* and *Scientific American*. In addition, Media Record reports RCA's expenditures on news-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We hope you like to get mail. Because when you advertise in Travel-Holiday, be prepared to get response! Last year alone we received nearly one million reader responses asking for more information on our articles and advertising. That's almost half our total 2.1 million upscale, travel-enthusiastic audience! And according to the latest Nielsen survey, 36.5% actually took the trip. Is your advertising getting that kind of response? For 100% travel at the lowest CPM of any travel magazine, include Travel-Holiday on your media schedule.
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paper advertising for its color tv's at a 1984 level of $6.3 million.

The second largest seller of tv's is **Zenith**, marketed by Zenith Radio Corp. The company sold 17.5% of the sets moved in 1984, according to *Television Digest*, which predicts that Zenith's share will drop to 16.5% for 1985. Currently offering 42 models with prices ranging up to about $1,400, the company targets men and women between the ages of 25 and 49 in the "mid to upper" income range. The lion's share of Zenith's approximately $9.6 million 1984 budget, according to LNA (up from $6.9 in 1983) went to buy national tv spots, usually during action-oriented shows. About 5%-10% of the budget went to general interest publications like *People*, *Time* and *Sports Illustrated*. The company says it is advertising more on cable — increasing that part of its budget by 50% between '83 and '84 and the same percentage in 1985 — but that it amounts to less than 20% of the total. Media Records shows that Zenith spent $1.5 million on newspaper ads in 1984.

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Considering that the average travel agent grosses over $2.3 million a year in billings, shouldn't your advertising be in the hands of these very key people? For more information on Travel-Holiday, the buy that works, contact Ruth Halpert, Adv. Mgr., Travel-Holiday, Travel Building, Floral Park, NY 11001. (516) 352-9700.
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TRAVEL-HOLIDAY
Your #1 vehicle for travel.

Computer graphics sell GE's color sets.

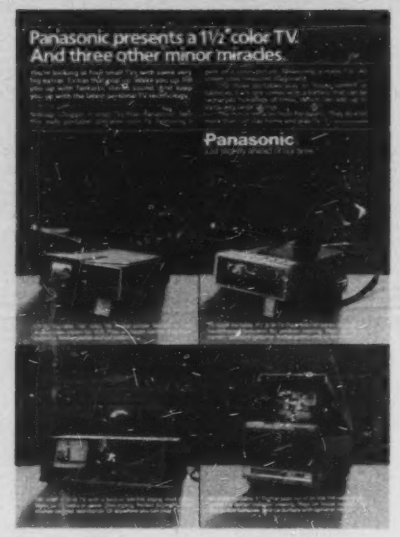
Zenith's campaign calls its tv's "The Smart Sets." Ads emphasize features like its MTS, which 14 of its current models are ready for, or wireless remote control. According to the EIA, one-third of all color sets sold last year were equipped with the feature. Zenith's name for its remote control feature: Computer Space Command.

General Electric Co.'s color tv marketing strategy, according to product line manager Lucy Sherrill, is "to focus on the mid-line products with some features, but not the knock-out bells and whistles." The company is following that course, she says, because there's no money to be made on the low-end products and "GE doesn't fit real well trying to sell high-end." GE spent about $7 million in 1984 on

advertising, the bulk of it on national tv (an additional $454,000 was spent advertising in newspapers, says Media Records). Currently offering fifty models that have retail prices ranging from $195 to $1,100, GE is given a third-ranking 1984 market share of 7.6%, which *Television Digest* predicts will fall to 6.85% for 1985.

This year, GE's advertising dollars were spent mostly on national tv to plug its new neodymium picture tube that produces brighter colors and cuts down on the amount of room light entering the picture tube. Ads explaining the feature ran during such shows as the *Emmy Awards*, the *Space* miniseries, as well as morning and evening new shows. Next year, says Sherrill, print will get more emphasis and explain the new tube more fully to consumers. Mass audience books like *People* and *Time* will carry the ads, as well as more targeted publications, such as *Metropolitan Home*.

Fourth-ranked **Sears** had a 7.1% market share in 1984 that will shrink to 6.7% for 1985, reports *Television Digest*. A company spokesman says



Mini and portable is the way to go to sell black and white sets along with color, says Panasonic.

Sears usually runs a combination of image building ads as well as price-off ones. A competitor says, "Sears is still a big factor because of its size, plus the fact that it's also a catalogue house and that you can always take [a set] back if anything's wrong." He describes Sears' market as being older people from the middle of the country with lower incomes than many other consumer electronics marketers. "Sears has its niche and they'd really have to mess up to lose it."

Sony markets 20 models in its Trinitron color tv line, with the advertising focusing on top-of-the-line XBR that can run up to $1,350 suggested retail price. Jeffrey Brooks, director of advertising, says the message of its advertising is "that we are the benchmark when it comes to picture quality." Sony's reported budget of nearly $6 million in 1984 went largely to network tv, where the company's spots appeared during the World Series, NFL games, *60 Minutes*, *Hill Street Blues* and network movies. Trinitron ads not only appeared in general interest books like *Time* and *Gentlemen's Quarterly*, but in video buff books like *Video Review* as well as audio magazines. Sony, with a fifth-ranked market share of 6.5% in 1984, also spent nearly $120,000 on newspaper ads that year, reports Media Records.

Depending on who you talk to, black-and-white tv is either a commodity or a novelty. Either way, says a Zenith spokesman, "Nobody pays much attention to black and white anymore." According to the EIA, B&W is in 70% of American households, a figure surpassed by color tv's 91% penetration. Marketers cite two explanations for the sets' continued existence. At prices averaging about $60 for a 12" screen, they can be bought on impulse or as a gift; and they can be bought in drug stores, record stores, even some grocery stores. The total portability of the mini B&W's — which are often also equipped with a tape player or radio — has also bought time for this category. However, they are coming under the threat of the mini color sets whose prices are plummeting.

The B&W market is dominated by **RCA**, with a 15.5% share of the factory sales, according to *Television Digest*. Second-ranking market share is claimed by **Zenith**, with 14%, followed by **Sears** with 9%, **GE** with 8.55% and **Panasonic** with 6.5%. Virtually no companies advertise their monochrome lines any more, except where they participate with dealers in co-op newspaper ads. Of those five,

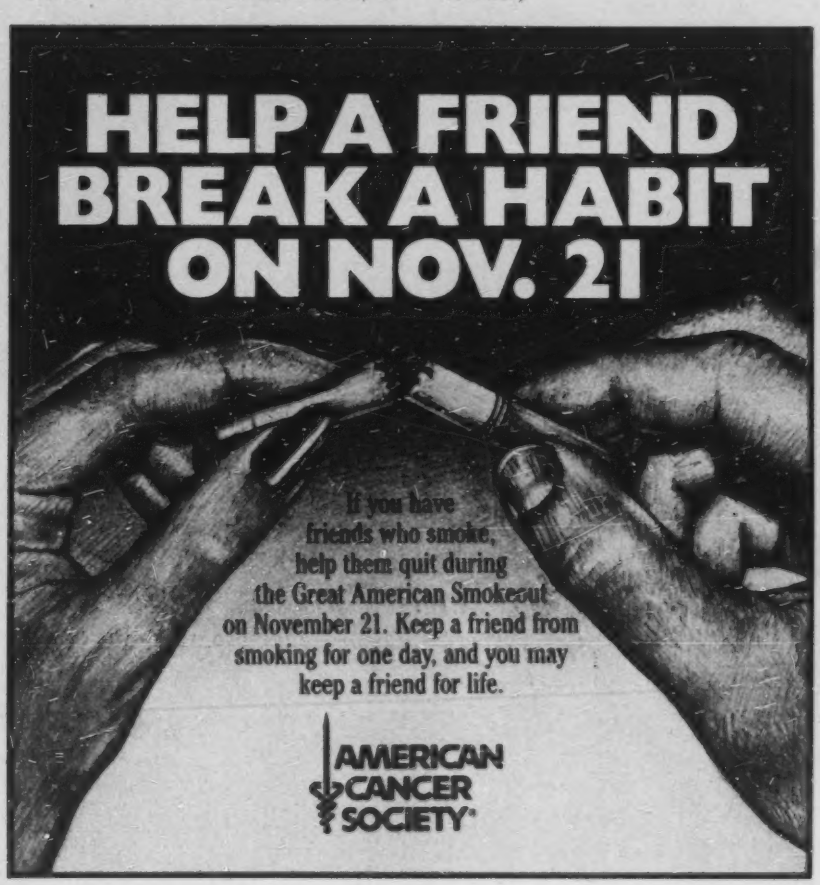
Panasonic is the exception: It shows mini B&W's in an ad for mini color sets, which runs in books such as *Sports Illustrated, Omni,* and the *New Yorker*.

VCR's

While household penetration of home video cassette recorders doesn't yet approach that of tv's, the EIA reports it is at 23% (see *VCR's: The saga continues,* page 83) and climbing fast. Industry estimates put 1984 sales to dealers at about 6.7 million units, or

The introduction of the compact disc player demonstrated a new sophistication in the marketing of consumer electronics.

$2.8 billion in factory sales, up from $1.5 billion in 1983. (About 80% of consumers are choosing VHS-style hardware over the Beta format models.)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Currently, two trends are shaping sales of this up-and-coming video product. Prices are continuing to fall from their 1975-introductory year levels of over $1,000 to an average of $350. The VCR market has experienced something of a population explosion to where there are now roughly 200 models being marketed under 36 brand names (Korea will be allowed to start exporting VCR's later this year). Predictions for sales to dealers fall into the 12-14 million unit range, while imports of VCR's (all are made overseas) are expected to reach 15 million. RCA, for one, recently announced that it was cancelling some $50 million of imports. All of this, say observers, spells an imminent shakeout.

On a more upbeat note, the second

The picture says a thousand words, but the sound will leave you speechless. The new Panasonic VHS Hi-Fi Video Recorder.
Panasonic

Stereo is the latest feature for video cassette recorders.

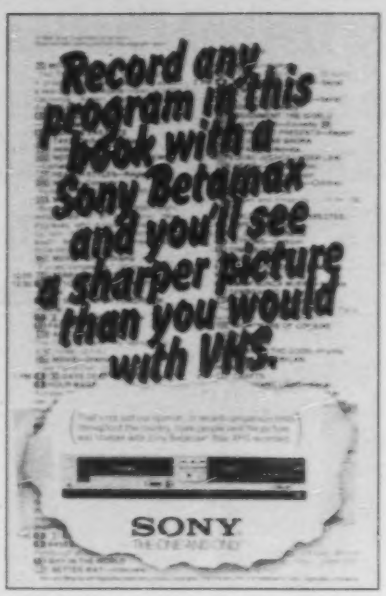
trend moving the VCR industry is the introduction of hi-fi VCR's, forging yet another bond between audio and video.

The demographics of VCR buyers have changed since its introduction, says William Beres of **RCA**, leader of the market with a 16% share, according to *Television Digest*. Though VCR buyers are still predominantly male, the first purchasers were 35-54 years old with an annual salary of $35,000 or above. Now the profile is of someone 25-45 years old, making at least $20,000. RCA, currently offering 25 models ranging in suggested retail price from $330-$1,300, spent over $6 million in advertising its products last

year. Part of that total went for network tv spots, running mostly during sports shows. RCA's VCR ads ran in a range of national publications such as *Time, Esquire, Video Review, Science '85,* and even photography books like *Popular Photography*. Media Records shows RCA spending $1.5 million on VCR's alone in newspapers, with another $1.3 million on ads pitching both VCR's and color tv's. In addition, the company says it is currently promoting hi-fi VCR's by offering up to $200 off the purchase of pre-recorded tapes.

Panasonic ranks second in market share, with 14% according to *Television Digest*. Stan Hametz, general manager-VHS division, thinks that within two years, most pre-recorded video tapes will be in stereo and that eventually "Stereo will be to VCR's what color is to tv." Panasonic spends close to $12 million on advertising, a large part of which goes to spot tv. Print ads are featured in magazines such as *Newsweek, Inc., Playboy, Business Week* and buff books like *Stereo Review* and *Video Review*. The ads "try to emphasize that we're on the cutting edge of developments," says Hametz, with the slogan: "Just Slightly Ahead of Our Time." The radio budget for Panasonic VCR's totals about $1.7 million for 1984, according to Radio Expenditures Reports.

"We do not intend to abandon Beta," claims Roland Martin, senior vice president-**Sony** Consumer products. Though he says the company expects to sell over two million Beta units in 1985, Martin also adds, "We do feel that the half-inch [Beta] format is a mature format." Though Sony did introduce a Super Beta hi-fi VCR this year (bringing their total number of models to nine with suggested retail prices ranging from $400-$1,500), they have also begun to market 8mm hardware, possibly signaling a shift. The company spent over $9 million in 1984 to advertise their VCR's, buying spots on network tv shows like *60 Minutes*, the Super Bowl and the World Series, and placing ads in magazines like *People, Time* and *Newsweek*. A new campaign is expected in October. Media Records says Sony spent close to $2 million in newspapers on its VCR products last year.



Sony Beta ads appeared in programing listing guides.

Fourth and fifth-ranked market share slots are given to **Fisher,** with a 6% share, and **Sanyo** with 5%. Fisher, also owned by Sanyo Electric Co Ltd., advertises in *People, Time* and *Sports Illustrated,* among other publications. Sanyo's newspaper expenditures for 1984 totaled about $56,000 for all of its Sanyo video products, reports Media Records, and LNA puts its other advertising expenditures at about $1.5 million. "Sanyo's image of a me-too knock-off or price brand is changing," says the company's sales promotion manager, Chuck Davis. And although he admits, "the key to Sanyo isn't innovation," he says the company is trying to create a more high-tech image for itself. Almost all of its ad dollars went to buy space for its "Vision Art" campaign in a range of publications including *Architectural Digest, Discover, Life, Money* and *Penthouse*.

Fisher exemplifies the dense copy style of some print ads.

Sanyo touts its high-quality picture with its Beta.

Compact Disc

The big news in the audio end of consumer electronics products is the growth of the compact disc market. "You're talking about a category that's just exploding," exclaims Paul Foschino, senior product manager at Technics. There is, indeed, an industry consensus: CD technology will have a revolutionary effect because listening is believing. "You don't have to have a golden ear to hear the difference," claims Steve Girod, manager of sales and marketing at Yamaha Electronics Corp. "The average guy on the street knows they sound better." Some observers think so many consumers will join the revolution so fast, turntables will become obsolete in five years. And penetration, they add, will go far because of the variety of players available: home models, portable "discman" models, auto CD's and even "boom box" players. But others think that the convenience and recording capability of cassette decks, as well as the heavy investments con-

Continued on page 146

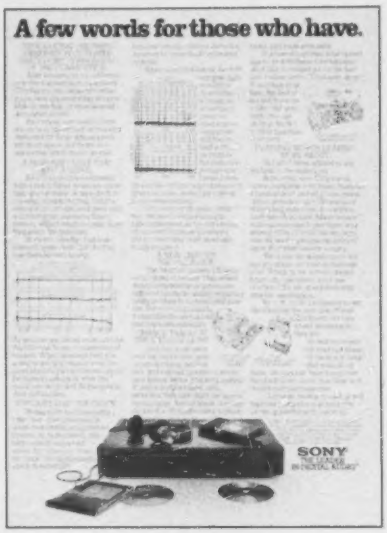
sumers have already made in turntables and records, will mean a somewhat slower growth rate for CD technology.

It's hard to predict the future, but sales figures since the players' 1983 launch speak for themselves: over 35,000 units in 1983, 200,000+ last year, and projections of 650,000-700,000 for a 1985 total and 1.4 million predicted for 1986. With a horde of manufacturers already offering at least one model each (the *Stereo Buyer's Guide* puts the current count at 90 models from 33 manufacturers), prices have already fallen from their 1983 starting point of about $1,000. The low end products are already down to $300 and at least one maker, Fisher, is expected to soon offer a $249 model.

The introduction of compact disc technology showed an impressive amount of advance planning and an unprecedented degree of cooperation between hardware and software makers (see *M&MD*, March 1985). In direct contrast, for example, to the Beta-VHS battle, all compact discs are the same size and can be played on all CD units. Promotions are often set up offering a CD-player buyer a discount on software. And, at the outset, software and hardware makers banded together to form the Compact Disc Group. Each member forked over an initiation fee, based on company size, that went towards industry advertising. In addition, software makers have been quick to produce a wide range of titles, 3,300 to date by the Group's count. That goes a long way towards convincing consumers that this is a technology that's here to stay.

The fact that the player business is in its infancy and is already such a competitive one makes market share impossible to pin down. **Sony**, who,

Sony sells its CD with side-by-side print ads.



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* 1983 Belden Springfield CMS, 1984 Paragon Dayton Survey;
** Dayton only, 1984 Paragon Survey; *** 1983, Ohio Data Users Center

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MARKETING & MEDIA DECISIONS

along with North American Philips Corp., was one of the first companies to launch a player, is credited with being the industry leader. Along with **Technics,** given the second ranking market share, the two are estimated to lay claims to anywhere from 35%-50% of the market. **Yamaha** is ranked a strong third, with the names **Denon, Sanyo** and **Pioneer** most often mentioned as battling it out for fourth and fifth place.

For the last four months of 1984 alone, Sony spent about $3 million to advertise and promote CD players. Many in the industry say Sony deserves a lot of the credit for the high level of consumer awareness of CD technology. Sony has, for instance, toured college campuses to explain the wonders of CD's. It also launched a promotional campaign called "Digital Nights" that

Technics Digital Compact Disc Players.
Lasers and computers
give you the one experience your conventional
audio system never could. Reality.
Technics

Technics put $1 million behind its CD's last year.

it carried out with software makers. The company sponsored dances in different parts of the U.S. — for instance going to Ft. Lauderdale during the traditional spring break crush — to let people hear the CD sound. Its first print ads ran in buff books like *High Fidelity, Audio* magazine and *Digital Audio,* in addition to more general music books like *Rolling Stone* and *Ovation.* Ads have since filtered into general interest publications: *Sports Illustrated, People* and *Playboy,* for instance. Network tv spots have aired during sports and news shows, and prime time series like *Hill Street Blues.* Media Records reports Sony spent about $200,000 on newspaper ads last year. The company currently markets three in-home players at suggested retail prices ranging from $350-$550. One Sony executive says there is "heavy YUP" (young urban professional) purchasing of their product.

Technics, a unit of Matsushita, spent under $1 million to advertise CD players last year, says LNA. Technics' "The Science of Sound" campaign aims for a middle to high-end image, says Paul Foschino, who adds that CD players will take an increasing share of the company's ad dollars away from its turntables. Ads have run in buff books as well as some more general interest titles such as *Omni* and *Stereo Review.* Though some network tv time was bought last year and this, Foschino says he doesn't think CD buying has quite reached the mass market yet, making big market buys inadvisable now. The company's current five models range in price from $300-$600.

Yamaha says it spent less than 10% of its total ad budget on CD players in

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The tech-y approach to marketing compact disc players.

1984, when LNA reports it funneled about $70,000 to these ads. Yamaha's Girod says the company expects a sales increase of about 300% in 1985 and will boost its ad budget. It buys print space in three types of publications: trade publications (*Sight & Sound Audio, Audio Video International*), buff books (*Stereo Review, Audio*), and consumer books (*Esquire, Omni, Architectural Digest*). The ads, he says, are very product oriented, focusing on Yamaha's high-tech reputation.

Robert Heiblim, vice president of sales and marketing for Denon, guesses his company's market share to be in the 6% range. Denon currently markets two players (suggested retail prices: $800 and $1,000) and will come out with three others in the fall, including one that should retail for about $350. He puts Denon's worldwide budget for its players at about $7.5 million and says the ads highlight the fact that Denon developed the process of digital recording.

Denon stresses its technical know-how in its consumer CD player ads.

Print ads go into buff books, some photography books and some slightly more targeted general books like *Architectural Digest*. The company also sponsors primarily classical radio broadcasts; Pioneer, among others, gave some of the first players to radio stations.

Stereo systems

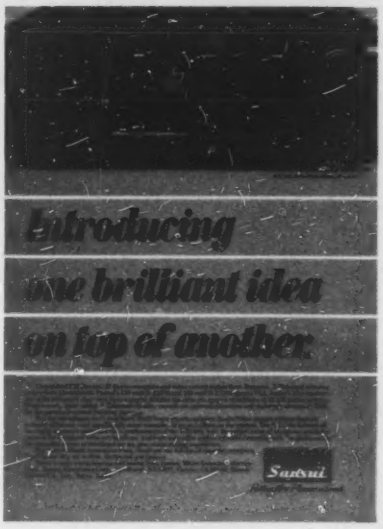
Though, in general, sales of separate stereo components are relatively flat, the last two years have played host to the rise of the rack system. Not to be confused with instruments of torture, these single-brand, all-in-one component systems make the often intimidating process of buying sound equipment a lot easier.

Racks are credited with putting department store audio sections on the map, because no expert sales staff is needed and they are easy to buy. *Consumer Electronics* magazine reports sales of one-brand systems, called racks because they are stacked vertically in a rack-like cabinet, totaled $531 million in 1984 and should reach $584 million by the end of 1985.

"If anybody listened to these things they wouldn't buy them," scoffs a marketer of one of the leading systems. "But people want something they can put on their credit cards. We felt we had to sell these or we'd lose dollars." Indeed, most agree that the look of a rack system is more important than the sound of it.

"The first impression the consumer gets is very important: how many lights it has, the amount of chrome and glass and the size of the speakers," explains Technics senior product manager Paul Foschino.

Industrial Market Research, a survey group, says **Fisher** holds a 31% share of the rack market in terms of units sold. **Pioneer** is second-ranked with 9%, followed by **Kenwood** with 7%, **Sansui** with 5% and **Technics** with 4%. One marketer says price cutting has been rampant, dropping prices 10%-20% a year, as more competitors jump aboard. All racks are built overseas. Though some systems sell for over $2,000, Fisher is reportedly readying a $500 system for launch soon. Fisher spent over $1 million in 1984 to advertise its systems and



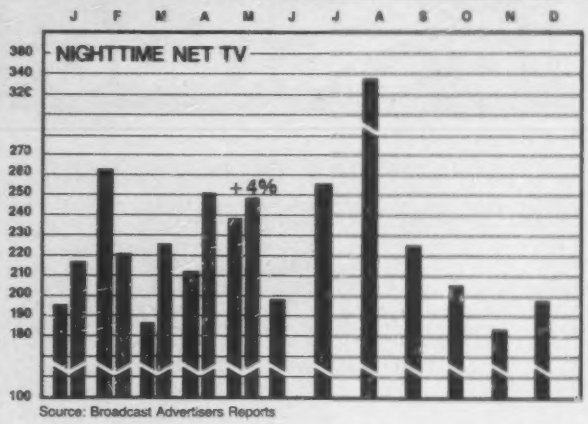
The marriage of audio and video is the subject of this Sansui page.

placed its value-oriented ads in enthusiast books like *Playboy, People* and *Life*. Pioneer spent under $1 million, according to LNA. Sansui's overall expenditures ran about $1.3 million to buy space in buff and general interest books; it also spent about $278,000 on newspaper space, according to Media Records.

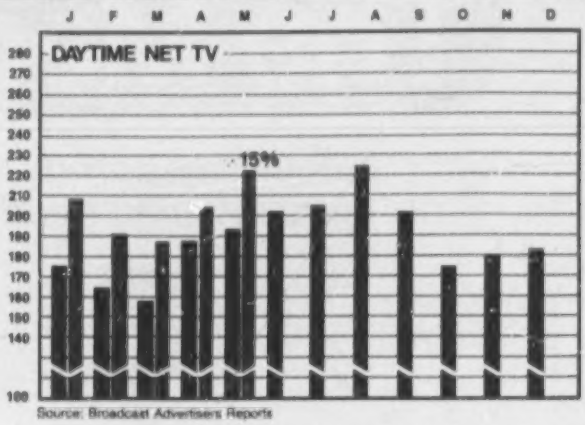
Carol Hall

MEDIA COST INDEX

Black bars index for 1984; color bars 1985; base year 1977



Source: Broadcast Advertisers Reports



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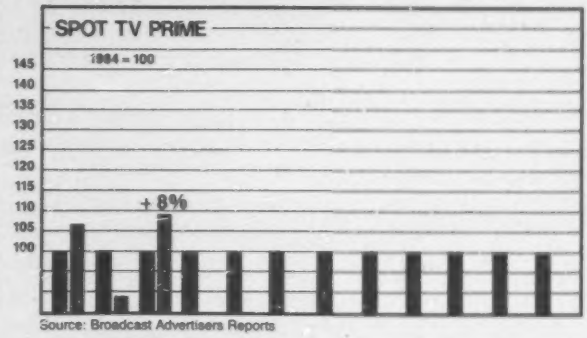

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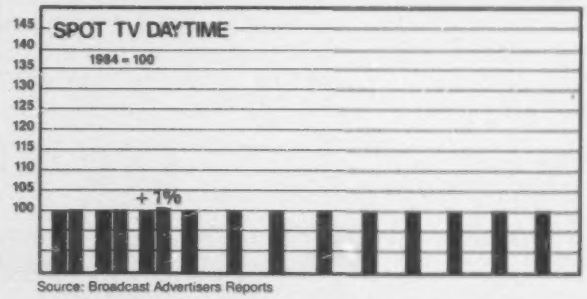

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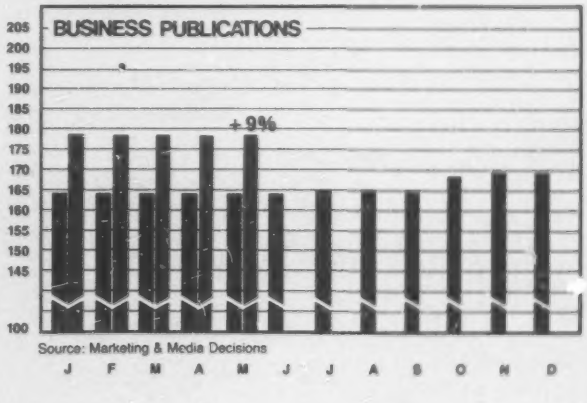


Source: Marketing & Media Decisions

Second-quarter data for **spot radio,** provided by Radio Expenditure Reports, show an increase of 10% over the same period in 1984. Rates in the first quarter were up 6% over the 1984 quarter.

Newspaper rate data are provided by the Newspaper Advertising Bureau, which has revised the series for 1985. The new data are running slightly higher than the previous measure. The January index on the previous report read 141, up 7% over January 1984; February read 140, also up 7% over the February 1984 level. The revised series shows: January — 145, up 10%; February and March — 144, up 9%; April and May — 145, up 8%.

National Sunday magazines for May held at +11% over the 1984 level. This level will probably prevail through August. Then, in September, the data will be revised to reflect the appearance of *USA Weekend*, the successor to *Family Weekly*.

Daytime network tv, after a slowdown in April, returned to a double-digit increase (15%) in the May-over-May comparison. **Nighttime network tv,** after an unusual increase in April, dropped to a +4% change in May. Data are supplied by Broadcast Advertisers Reports.

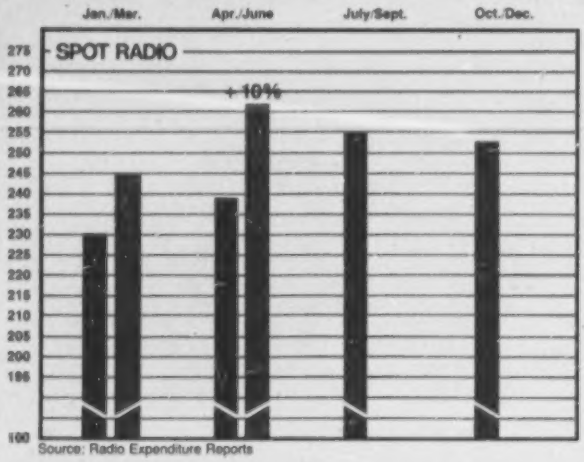
Business publications are running along at an index level of 178, up 9% over the 1984 level. We are fast moving into that period of the year when business publishers traditionally begin to announce rate changes. Then we will get an inkling as to how rates will move in the coming months.

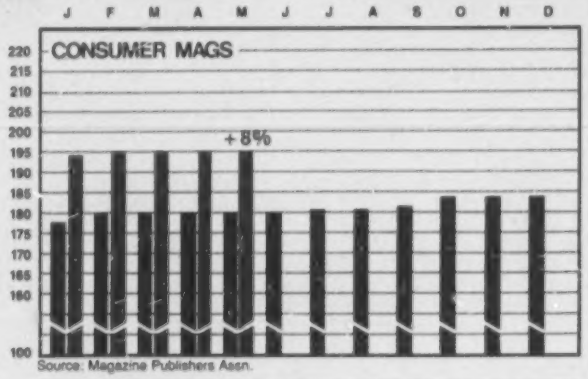
Consumer magazines, based on the composite total of a four-color page in 40 magazines (compiled by Magazine Publishers Assn.), has held at a level of +8% for February through May.

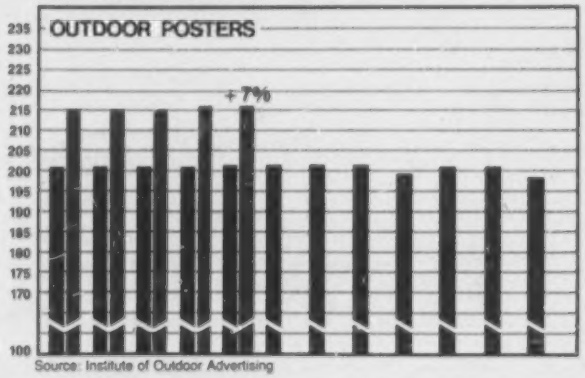
Outdoor rates, based on data supplied by the Institute of Outdoor Advertising, have held at +7% so far this year.

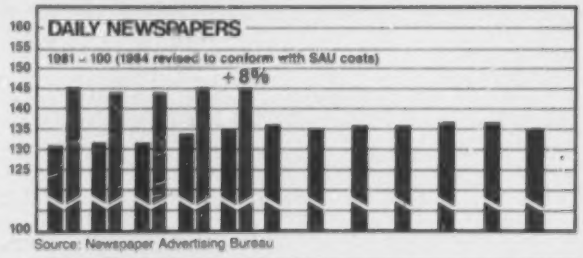
MEDIA COST INDEX (continued)

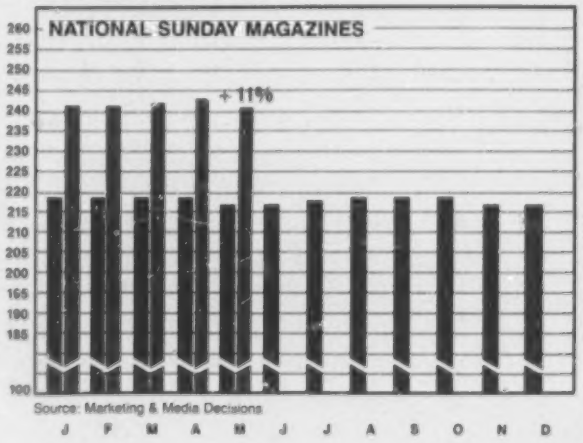
Black bars index for 1984; color bars 1985; base year 1977











The Media Cost Index reflects trends extracted from available sources. Where industry competitive sources are unavailable, selected cost data from SRDS are sampled.

Sources:

Nighttime Network TV — Cost per average 30-second spot, 7:30-11 p.m. Monday-Saturday and 7-11 p.m. Sunday from Broadcast Advertisers Reports' (BAR) Network TV Service.

Daytime Network TV — Cost per average 30-second spot, 10 a.m.-4:30 p.m. Monday-Friday from BAR's Network TV Service.

Network Radio — Cost per average 30-second radio announcement from BAR's Network Radio Service.

Consumer Magazine estimate based on reported SRDS cost of a page, four-color in 40 national consumer magazines, as reported by Magazine Publishers Assn.

National Sunday Mags estimate based on published (rate cards) costs of a page, four-color in the national entries. **(Please note:** Last month's legend contained a typographical error. It is now correct as stated.)

Daily Newspapers estimate based on Newspaper Advertising Bureau report of SRDS costs per agate line of a sample of 788 newspapers weighted to represent the universe.

Business Publications estimate based on reported SRDS cost of a page, four-color in 48 publications representing 42 business and professional classifications.

Outdoor Posters based on estimate prepared by Institute of Outdoor Advertising.

Spot Radio index represents cost of a 60-second spot in the top 100 markets from data supplied to Radio Expenditure Reports by major radio representatives.

How to read: Media Cost Index reflects latest available costs compared with base year 1977. Percent change shows rate of change from the same month in previous year.

Dancer Fitzgerald Sample's vice president, associate director of electronic media, Erica Gruen, says VCR's pose more of a creative than a media concern. "As VCR's become a serious contender for tv viewing, everyone recognizes their potential as an ad vehicle. But what the form and placement of the advertising will be is an issue of appropriate creative." DFS is exploring opportunities but is cautious in its approach. "There is no question that VCR commercials must be intriguing and different enough from regular tv ads so that people won't feel that they are paying for commercials. There must be a value-added element," which, says Gruen, could be in the form of how-to's.

Consequently, the question is raised, is it a media buy or a promotional buy? "It's a grey area in terms of classifying VCR advertising," says Gruen. "Targeting opportunities will be critical."

Steve Abel, BBDO's vice president of new technology and resources, says the agency's Video Development Group was set up in November of last year to address those kinds of questions. "With the number of outlets for programing increasing, there are two strategies that can be employed: offensive, as a way of getting to the VCR owner in terms of producing for the marketplace; and defensive, by tying into the promotional efforts of let's say a soon-to-be released video cassette where you have the program and client marketing goal matching up," says Abel. He adds that "there is a risk when advertisers go in because there is no track record in terms of strategy."

How advertisers and agencies will go about this task is top secret, says Abel. "It's such a competitive area no one wants to give away strategies." However, one agency whose client is reaping substantial benefits from its pioneering stance is Backer & Spielvogel, which along with Chelsea Communications (M&MD, January 1984) took Red Lobster into the video cassette market. Red Lobster's sponsorship of "Eat to Win," the video based on Robert Haas's best seller, tied in with the restaurant chain's marketing objectives, says Steve Auerbach, vice president, manager of network programing for Backer & Spielvogel. On the video cassette, Red Lobster gets side and front panels with its logo opening and closing billboards with special copy, while a coupon enclosed in the cassette package offers a discount at Red Lobster restaurants. Over 1,500 copies of the videotape have been sold since its April release.

Take off with the
ENTERTAINMENT CONTROL CENTER
A $450.00 Value!
You can own GE's newest VHS
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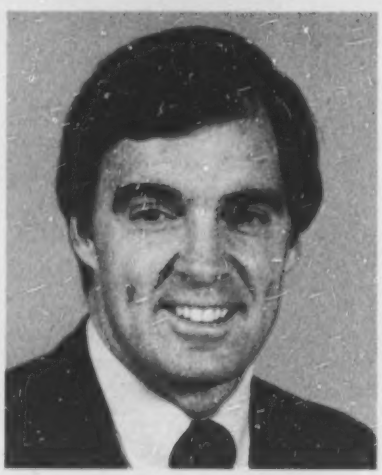
Auerbach concedes, "There is a fine line between ad sponsorship and advertiser identification. The message must be integrated into the program concept and the tape must have the potential for repeat viewing. 'Eat to Win' fit Red Lobster's profile, its marketing goal, and had the added plus of being a regimen which guarantees repeat viewing, and therefore continual sponsor identification."

As for VCR's relationship with cable tv, research indicates that a compatability seems to exist between VCR's, basic and pay cable. Many cable operators were initially fearful that the rapid expansion of VCR's would negatively affect the cable market. However, research, as indicated by Link Resources, Paul Kagan and other top analysts, points to a compatability. VCR ownership is higher among cable subscribers: by Link tally, 29.6% of cable subs were owners of VCR's as compared to 26% of non-cable homes. Those with cable tend to use their VCR for time shifting more than VCR owners in general.

MSO's are responding favorably to the way VCR's are being used in conjunction with cable. Some like Continental Cable have encouraged

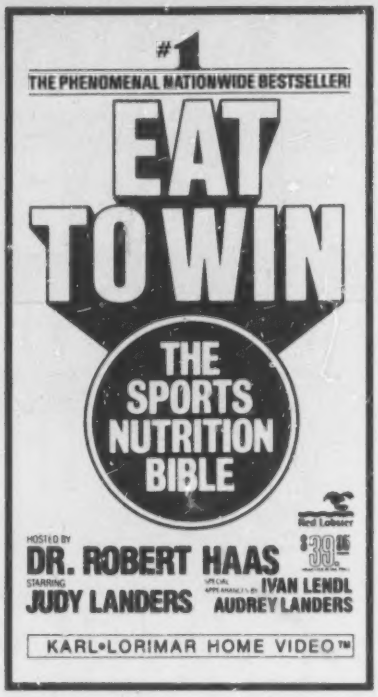


"VCR's in cable homes mean subscribers will enjoy cable more and retain the service longer."

SCOTT CAMPBELL
marketing director,
Jones Intercable

compatability between the VCR and cable by having their service forces help install a subscriber's VCR; Continental even offers specially prepared, over-the-air mini programs on VCR/cable compatability. Jones Intercable has gone even further by offering, as of June, 50,000 of its subscribers in four regions a VCR/cable package. Jones offers the General Electric 6610 video cassette recorder in a number of different package combinations averaging $44.95 a month for a package that includes two pay services from a choice of HBO, Cinemax, Showtime, The Movie Channel and Disney. "Based on our research, we concluded that we're better off having VCR's in cable homes because they will enjoy cable more and will hopefully keep the service for a longer period of time," says Jones' marketing director Scott Campbell.

Of the $44.95 fee, $20 a month goes to the GE Credit Corporation for the VCR. After a two year period the subscriber then owns the VCR. If he disconnects cable, he still has the option to continue payments on the VCR to GE. "We're not locking anyone into cable," notes Campbell, "but we are creating a preferred customer. By the same token, if a person is a non-subscriber on a Jones system, then we have a nice way of convincing him that now is the time to buy cable." Jones is marketing primarily through direct-mail pieces followed with telemarketing.



"Eat to Win" tied in with Red Lobster's image and objectives.

Pay tv executives are also starting to feel out the opportunity for VCR and pay compatability. Showtime/The Movie Channel's recent study found that the two entertainment sources "enjoy a healthy compatability." After examining a 2,200 home sample, Showtime/The Movie Channel found there is an increased pay tv demand among VCR owners, as well as a greater pay demand among non-pay VCR owners; a positive impact on actual pay usage; little effect on cancellations of subscriptions, and a positive effect on program consumption.

Comments Neil Austrian, chairman and CEO of Showtime/The Movie Channel, "Contrary to assertions that the proliferation of VCR's will choke off the growth of pay cable, this study suggests that VCR ownership and pay subscriptions go hand in hand."

As for the effects on broadcast viewership, that question is in the throes of examination. O&M's manager of broadcast and new technologies research Kevin Burns comments on the impact of VCR's. "The data seem to indicate that VCR's replace rather than supplement traditional broadcast viewing. Cable audiences, on the other hand, tend to watch more tv, and that partially offsets network erosion." He adds, "VCR's don't tend to increase usage and taped programs don't appear to have much commercial value. Additionally, with cable the advertiser can buy back a lot of lost network rating points since half of cable viewing is on the ad-supported networks. VCR users, since they zap commercials, are harder for an advertiser to reach."

"We are recommending to our clients to push for advertising on pay cable, even if it's a selective opportunity," declares Burns. "That would help offset the erosion which VCR's will not stem. The viewer is more and more illusive, so whatever opportunities we can get to reach the viewers should be encouraged," he argues.

Judith Reitman

"Arnold, I know it means a lot to you, but a coffee table book it's not."

C2950-3

REINING IN MEDIA COSTS

How the economy, supply and demand, materials, production and distribution costs will influence rates in 1986.

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WASHINGTON DC 20814
PUBLIC DOCUMENTS DEPT
MD 20814

MEDIA COSTS

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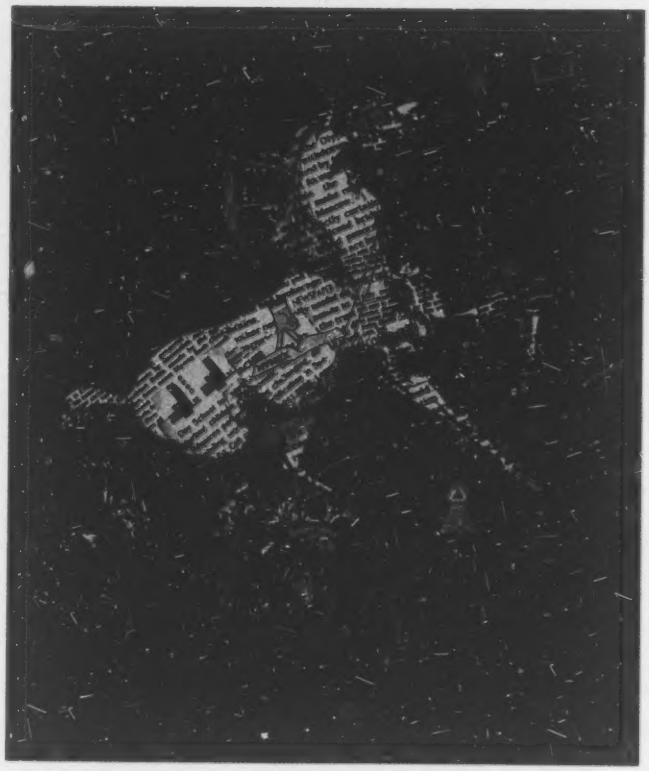
Cover by François Colos

MARKETING & MEDIA DECISIONS (ISSN0195-4296) FALL 1985, Vol. 20, No. 12 Copyright © 1985. Decisions Publications Inc. Published 15 times. Executive, editorial, circulation and advertising offices at 1140 Ave. of Americas, New York, N.Y. 10036 (212) 391-2155. **Available** without charge to those personally involved in media decisions at major agencies and advertiser companies. For others, subscription prices are: U.S.A. $40 for 15 issues. Canada $50. Overseas $52 (surface mail). Airmail — add $52. Single copy $3.00. All overseas copies are paid. Second-class postage paid at New York, New York, and additional mailing offices. **Postmaster:** Send form 3579 to Marketing & Media Decisions, 1140 Ave. of Americas, New York, N.Y. 10036.

Forecast 1986: Rates will rise but caution will rule

There is both good news and bad news this year in relation to media costs and where they are headed. The good news is that media costs are moderating — almost across the board — but the reasons why leave little reason to cheer. Cost increases are slowing largely because the economy is heard to be wheezing and marketers are looking to take preventive spending cutbacks before their bottom lines catch cold.



Worry over the direction of the nation's economic health — and government policies, or the lack thereof — is causing advertisers and their agencies to close the window on their media expenditures. Naturally, when demand slackens, prices weaken. What remains to be seen is whether the window will be slammed shut or pressed upon lightly to moderate formerly fast-advancing media budgets.

The uncertainty over the economy's future performance seems to have added an unusual bellicosity to agencies and advertisers' tones when assessing media rates for the upcoming year. Though buyers and sellers obviously have certain public personas and roles they must play when placing advertising dollars, this year's dialogue seems far more pointed than normal. Marketers are bristling that although less than in previous years, media increases in the 6% to 9% range are unwarranted. They are emphasizing that plenty of cheaper, effective media alternatives abound, and they will avail themselves of the opportunities. More careful choices have to be made this year, they say, as to which magazines or shows or newspapers will get their business, and one of the key criterion's will be price — and substantiated prices at that.

Buyers jump to point out that there are no special events to make inventory scarce and expensive in television this year, or to create a spillover demand situation in other media. By the same token, they reason that postal and paper costs have stabilized for pub-

Media Cost Rises

	1986 vs. 1985 Anticipated	1985 vs. 1984 Actual	1985 vs. 1984 Anticipated	1984 vs. 1983 Actual	1984 vs. 1983 Anticipated	1983 vs. 1982 Actual	1983 vs. 1982 Anticipated	1982 vs. 1981 Actual	1982 vs. 1981 Anticipated
Average increases—unit cost									
Nighttime network tv	7.0%	7.9%	9.2%	10.6%	9.6%	10.3%	10.7%	9.8%	11.0%
Daytime network tv	6.9	10.5	12.7	11.4	8.1	8.4	8.5	7.0	8.4
Spot tv	7.7	7.6	7.8	9.8	10.9	8.1	8.5	8.5	8.9
Network radio	7.2	7.9	7.3	8.0	9.0	7.8	8.7	8.0	8.5
Spot radio	6.8	6.7	7.4	8.7	8.7	7.5	8.4	7.4	7.6
Consumer mags	7.7	8.0	8.2	9.1	9.0	9.2	9.0	9.3	10.0
Nat'l Sunday mags*	6.7	8.3	8.3	9.1	7.9	8.1	8.9	9.5	9.1
Daily newspapers	7.9	8.0	8.5	9.0	9.3	9.9	9.6	9.4	9.1
Outdoor posters	7.2	6.5	7.3	8.0	9.8	8.7	8.5	8.7	8.3
Business publications	7.2	6.7	7.6	7.5	7.3	8.0	8.5	9.1	9.2

* Poll results may not take into account recent changes in the field.

lishers and direct mailers, thereby eliminating last year's major reason for price increases.

Furthermore, buyers note that the general rate of inflation remains low, while interest rates continue to fall. So how, they ask, can rate hikes almost double the 4% inflation rate be justifiable?

The answers supplied by sellers include the explanation that the Consumer Price Index measures only general inflation and not cost pressures on particular industries. The cost of doing business, they say, continues to float upwards, and must be reflected in their rates if they are to be able to reinvest in their properties and keep them attractive for advertisers and consumers. Also, they ask, aren't they entitled to raise rates if they are delivering more audience or better demographics than contracted for previously? These arguments are, of course, age-old on both sides, yet they have more of an uninviting sting this year as advertisers try and live with frozen budgets.

Trying to put these views in perspective is what this special issue is all about. Our object is to sift through the debate over media costs and present the clear evidence. What we have attempted to do is ascertain where costs are headed for the upcoming year in the most commonly bought media, and to look into the factors affecting pricing.

To achieve our goal, we have gathered analyses from recognized experts in their fields. A questionnaire was mailed to media directors around the country, asking them to share — anonymously — their expectations on media costs for the 1986 year, and to contrast it with the actual prices paid in 1985. Once again, we received a most helpful response, the fruits of which can be seen on the accompanying tables.

Following last year's warm reception to the inauguration of the economist and media analyst section, we have produced an encore. Ten leading economists and analysts present their thoughts on the nation's health and gauge its effect on media spending.

And, of course, we culled opinions from advertisers, media company executives and agency professionals regarding the why's, how-to's and alternatives to higher media costs. We thank you all for making your insights available to us.

From this compilation of sources comes the prediction that, on average, media units will cost 7.5% more in 1986 than in 1985. Last year's projection of an 8.9% average unit gain ended up overstating the case as it was based on a sense optimism that was tempered as the year progressed. According to our survey, costs actually rose some 8.1% in 1985.

While we received a range of opinions on media costs for the upcoming year, there was unanimity on one score — all bets were hedged. Whipsawing trends produced by leading economic indicators has everyone scratching their heads. On the one hand, optimists point to a low inflation rate (the CPI still hangs out in the 4% neighborhood), vastly lower interest rates (down a mammoth four percentage points over last year), strong, if erratic demand for goods and services (total sales have continued to grow at a 4.2% pace since the third quarter of 1984), and generally strong consumer confidence (the latest Conference Board survey pegs it at well over 90%).

But on the other hand, retail sales are weak (up 0.4% in July); auto sales have stalled (down about 10%); capital spending is in the doldrums (a growth rate of 6% versus 16% in 1984); the Gross National Product is anemic (up 1% for the first six months of 1985 as opposed to its 6.8% pace in 1984); inventory investment is slack (this measure recorded its largest three-quarter drop since World War II), and there is a lowering in housing starts and a dropoff in corporate profits. At the heart of the matter are fears about the still-huge deficit, the too strong dollar and its role in the balance of trade gap, and what, if anything, the Reagan Administration and Congress intends to do about these sore points. Looming in the background are concerns as to whether proposed changes in the tax code will carry, and with what impact.

Given this scenario, it is little wonder that advertisers are edgy. Robert J. Coen, senior vice president of McCann-Erickson and its economic seer, has lowered his tally for total advertising spending increases. He expects it to advance by 9.1% in 1985, way off 1984's 15.8% uptick, but better than 1986's projected 8.5% rise.

Our articles examine the forecast for cost containment in all major media. Each article also breaks out highlights of conversations held with agency and advertiser experts to give personal insight into how specific aspects of the changing media scene are viewed by those most directly affected. Taken together, we hope our efforts prove to be a helpful tool for weathering whatever tomorrow brings to marketing and media people.

Actual Media Cost Increases 1985 vs. 1984

Average increases	unit cost	audience	cpm
Nighttime network tv	7.87%	−0.74%	9.19%
Daytime network tv	10.54	−0.58	12.09
Spot tv	7.58	0.47	7.52
Network radio	7.90	1.79	7.31
Spot radio	6.67	1.50	5.91
Consumer mags	8.02	1.54	7.06
Nat'l Sunday mags*	8.29	1.68	6.62
Daily newspapers	8.04	1.27	7.29
Outdoor posters	6.55	2.11	6.38
Business publications	6.73	1.09	7.34
Response ranges (actual cost)			
Nighttime network tv	3/12%	−3/10%	5/12%
Daytime network tv	0/20	−8/11	3/23
Spot tv	3/13	−4/8	6/12
Network radio	2/13	0/9	2/12
Spot radio	3/12	0/9	3/12
Consumer mags	6/11	0/8	2/9
Nat'l Sunday mags*	3/11	−2/9	−2/10
Daily newspapers	5/11	−3/10	2/10.9
Outdoor posters	3/12	0/12	4/10
Business publications	4/10	0/8	5.4/10

* Poll results may not take into account recent changes in the field.

Anticipated Media Cost Rises 1986 vs. 1985

Average increases	unit	audience	cpm
Nighttime network tv	6.98%	−1.05%	8.30%
Daytime network tv	6.93	−1.13	8.85
Spot tv	7.68	0.33	7.23
Network radio	7.20	1.01	6.90
Spot radio	6.82	1.20	5.86
Consumer mags	7.68	1.65	6.88
Nat'l Sunday mags*	6.71	1.49	5.81
Daily newspapers	7.91	0.82	7.42
Outdoor posters	7.16	1.17	6.57
Business publications	7.16	0.93	7.17
Response ranges (anticipated cost)			
Nighttime network tv	2/11.5%	−5/10%	4/15%
Daytime network tv	2/11	−8/10	5/11
Spot tv	3/11	−4/8	2/13
Network radio	2/13.5	−3/8	2/13.5
Spot radio	3/10	0/7	2/10
Consumer mags	4/11	−1/8	4/10
Nat'l Sunday mags*	−5/11	−2/9	−5.5/9.5
Daily newspapers	4/12	−3/9	4/13
Outdoor posters	4/10	0/9	4/10
Business publications	3.8/10	0/8	5/12

* Poll results may not take into account recent changes in the field.

The economy's big chill — advertisers and media await a warming trend

The nation's economy appears to be nearing a turning point, but no one is quite sure which way it will go. Economic indicators are confusing. Almost half of the usual economic bellwethers point to continued health, with inflation, interest rates and consumer confidence all looking good. Yet other signs are troubling. Purchasing agents are holding back orders, new car sales are off, retail sales have the blahs, corporate profits have dropped off last year's pace, and there's a general air of unease.

The uncertainty has manifested itself in a slowing growth rate. Last year the economy grew at a smart 6.8% pace, but this year most economists are estimating only a 3% overall gain.

Although both the doomsayers and the rosy-hued optimists seem to have been wrong, there is little consensus on what is right. Leaving everyone guessing is what will and can be done about the enormous federal deficit, trade gap, and the too-robust dollar. The economists surveyed here all bring different perspectives on the outlook for 1986. They, and the financial analysts profiled, agree on only one thing: Whether the concerns be macro or micro, the economy's temperature will show real fluctuations.

The Economists' Views

Roger Kubarych, chief economist of The Conference Board:

"I would characterize the economy as sluggish, moving in fits and starts towards a 3% growth," forecasts Kubarych. But even this modest uptick may not be easily achieved, he warns. "The biggest stumbling block to this scenario is the strong dollar. Although it should fall 10% to 20% in value, it won't be enough." Kubarych's concern is that the strong dollar is making American products uncompetitive on world markets (and even here at home versus cheaper imported products), therefore worsening our balance of trade and particularly battering such industries as steel, chemicals and aircraft.

J. R. Kubarych

He does not expect the dollar to weaken significantly because the U.S. economy is still stronger than most countries and consequently attracts an outpouring of foreign investment. "There will be no respite from the strong dollar until there are better investment vehicles in Europe," says Kubarych, who characterizes those countries economies as "kind of stuck."

Nevertheless, Kubarych does not want to be known as a bear. "There is no recession on the horizon because there is no reason for it," he declares. "There's so little inflation and interest rates will keep coming down, which will be good for construction, car sales and local government spending. Usually high inflation precedes a recession," he explains. With that key ingredient thankfully missing, Kubarych believes that "the economy should move forward in 1986."

A. Gary Shilling, president, A. Gary Shilling & Co.:

"We are in a recession right now," declares Shilling. His reasons? "We have had very high real interest rates [the price the Federal Reserve charges banks for money] for some time now, and it is too much. There has been a

huge flood of imports, exacerbating the trade gap between the U.S. and other countries." Concludes Shilling: "The economy has just run out of gas."

Shilling attributes much of this bleak picture to global problems that "are coming thick and fast." For example, he ticks off, "Europe has an 11% unemployment rate, which means they will cut down on the amount of goods they import. OPEC can't survive another worldwide oil slump. Brazil and Argentina may default on their loans to Western nations . . . We're the only engine in the world," he finds.

Not surprisingly, Shilling foresees no cumulative growth for 1985 and projects that unemployment will hit 9% by the end of the year. He thinks that scenario will continue at least through the first half of 1986.

However, Shilling points out that beyond that date, "the rationale for recovery is the same as that for continued weakness." What Shilling means is that companies could see their inventories reduced enough to therefore gain more flexibility regarding marketing plans, and gain some relief from financing costs. And most importantly, interest rates should come down enough, in reaction to a sagging economy, to stimulate housing starts anew. "A strong housing market flows over to other industries, and it should be enough for a 3% to 4% growth in the first part of next year, and probably mean a 2% to 3% growth for the entire 1986 year."

G. Shilling

R. Cahn

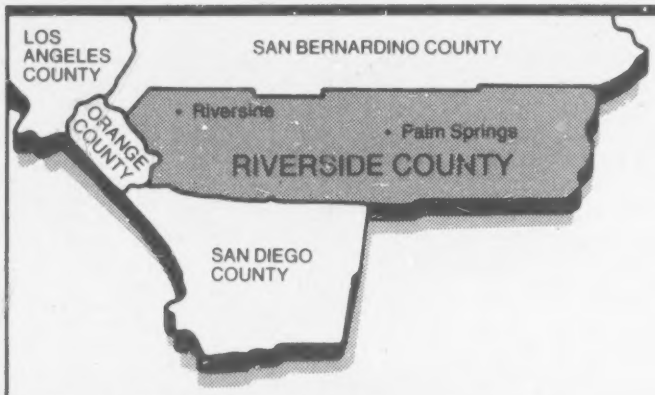
Is there at least a thin silver lining? "We should see the bond rally of a lifetime."

Roseanne Cahn, vice president, senior economist, Goldman Sachs:

"The economy is a lot less fundamentally robust than it was a year ago, and a recession in the second half of 1985 is possible," believes Cahn. "But the Federal Reserve has been working hard against it, lowering the interest rates and all, and it's never a good idea to bet against the Fed. They've been good in the past."

Although the dollar "seems to have peaked," Cahn feels that the negative influences from its extraordinary strength earlier this year will have lingering effects. She points out that the dollar is still very high, making imported items popular with Americans and U.S.-made products too dear in foreign markets. "The trade deficit right now probably takes away a substantial 1% to 1.5% from our growth," she figures. But Cahn thinks the worst is over for now and credits American businesses with having "finally gotten around the problem through conservative inventory policies." Cahn estimates the dollar will tumble another 15% in value through mid-1986. With the resulting happy effect this will have on the trade deficit, plus low inflation, prudent management by companies, and Fed policies, she is projecting a "modest pick-up in the second half of 1985." Growth, according to Cahn, "should be up over 4% in the first half of 1986." She also predicts that "the Fed will begin cutting off the money supply again by the fourth quarter."

Lacy Hunt, chief economist, Carroll McEntee & McGinley, Inc.: Hunt is more optimistic about the economic outlook than many of his counterparts. "The growth rate will be up 4.5% in the first half of 1986, from a total of 2% this year," he predicts. "This will be due to very substantial monetary improvements, some of which have already taken place." For example, he points out that "the M-1 rate [which is



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L. Hunt

A. Moskowitz

Projections at a Glance

	GNP	Unemployment	Inflation	Interest Rates (T bills, 3 months)
Kuberych				
Second half '85	2-2.5%	7.5%	3.0%	6.9%
First half '86	3.5	7.5	3.5	6.9
Shilling				
Second half '85	0	9.0	2.0-3.0	5.0-6.0
First half '86	3.0-4.0	9.0	2.0-3.0	5.0-6.0
Cahn				
Second half '85	2.5	7.2	3.8	7.5
First half '86	4.3	7.0	5.0	7.5
Hunt				
Second half '85	4.2	7.1	4.9	8.0
First half '86	4.4	6.8	6.3	8.9
Moskowitz				
Second half '85	2.0-5.0	7.25	4.0	6.5-6.7
First half '86	4.0-5.0	7.25	4.0	7.5

the amount of currency held in regular checking accounts, NOW accounts and travelers' checks] is 11%. Last year, at this time, it was running at 6.9% rate." The significance of this indicator is that the M-1 rate seems to indicate consumers' ability to spend by measuring cash on hand.

Feeding Hunt's projections is a belief that "the trade deficit is topping out," though still at a whopping level thanks to a weakening dollar. Thus, there will be a higher, but still manageable inflation rate of 6.1% for the 1986 year. "Unemployment levels should be slightly lower than the current 7% rate, and the new year should see the third straight year of exceptionally good housing starts," says Hunt. He also expects auto sales to "stay around the 8.5 million mark, despite heavy import penetration." These factors, he declares, should lead to "basic manufacturers having their best year since 1979 in 1986."

Arnold Moskowitz, senior vice president and economist, Dean Witter Reynolds:

"We have been in a recession for the past year, and it may last another three to five months," warns Moskowitz. He argues that "we've had no growth in industrial production for the past year. Meanwhile, the real GNP growth has come in at 2.5% or less the last year. And commodity prices have stayed level."

Nevertheless, Moskowitz sees some brighter signs. A combination of eased monetary policy, industry stabilization and savvy inventory management should contribute to an uptick in the economy during the latter part of 1985, and throughout 1986. "There should be 4% to 5% growth next year, as long as the dollar continues to drop and inflation remains where it is," says Moskowitz.

The Media Analysts' Views

Barbara Russell, vice president, media analyst, Prudential-Bache:

"The network's revenues have been slowed by disinflation, and the fact that they don't have the events they did last year," says Russell, referring to the advertising bonanza prompted by last year's Olympics and Presidential election. She also points out that "there is a lot of supply in the scatter markets, indicating that they will be weaker than last year's." All this leads Russell to conclude that "the revenue gains for the networks this year should only be in the 5% to 6% range." However, Russell also feels that the economy will pick up, which "should lead to better consumer spending [and hence advertising] and a better second half."

Among the networks, Russell sees NBC continuing to close the ratings share gap on CBS. "The pressure is on ABC — unless they come up with a real dynamo of a programing schedule, they could be in trouble," she says. According to Russell, "the Capital Cities takeover of ABC may ultimately affect pricing there. Cap Cities may not have a lot of experience in programing, but we know that CEO Tom Murphy doesn't take well to fat budgets, and that could mean significant cost reductions for the network."

In other broadcasting markets, Russell projects syndication to continue to do well, while cable "slows down substantially. The growing use of VCR's has hurt cable," believes Russell, but she also likes their effect on network television viewing.

In 1986, continues Russell, the networks will see "no short turnaround. There are stronger independent stations all over the country. But the economy will help some — we see 6% growth in GNP during 1986," she says. "And while the networks' share of the market will still go down, due to other viewing options, their rate of decline will slow."

Alan Gottesman, senior vice president, L.F. Rothschild Unterberg Towbin:

"It's a down market — advertising is generally sluggish," comments

Continued on page 99

Ted Bates reviews a decade at the races

As we approach 1986, galloping media cost rises are finally slowing their pace.

Introduction

Ted Bates Advertising has traditionally prepared an annual media cost trend. This particular study tracks cost efficiencies (CPM's) for nine specific media elements. Past trends in measured economic indicators (Consumer Price Index-CPI/Gross National Product-GNP) serve as a benchmark for our analysis. This year's study will focus on the events of the past decade: 1976-1985. Utilizing 1976 as a base year, it is possible to compare the overall performance of media CPM's against that of the CPI. This enables us to determine at what pace CPM's have risen over the decade and whether they are comparable to the overall increase in inflation. We will also examine the relationship of CPM's to the CPI on a year-to-year basis to ascertain whether there is an observable correlation between the two measures.

1976-1985: A decade at the races

The past decade, 1976-1985, has witnessed a dramatic upward trend in both inflation and in media CPM's. The CPI had an overall increase of 83% from 1976 to 1984 and is expected to reach 90% by the end of 1985, marking the conclusion of our designated decade (Exhibit I). The beginning of the decade was accompanied by substantial inflationary pressures which surged to even higher levels in mid-decade, but fortunately the decade seems to be ending on a disinflationary note. During this same ten-year period, media CPM's outpaced the growth in the CPI for virtually all media elements. The ten-year increase for all nine analyzed media elements collectively, through 1985, is expected to be 122%, a 36% greater increase than the CPI over the

EXHIBIT I

Cost Per Thousand Trends

Aggregate % Increase — Base Year 1976

Year	Day Net TV	Even. Net TV	Spot TV	Net Radio	Spot Radio	Mag	News	Sun Mags	Out-door	CPI
1976	0	0	0	0	0	0	0	0	0	0
1977	29	26	5	8	9	9	8	18	8	7
1978	39	38	5	17	15	20	17	20	20	16
1979	46	55	14	23	21	28	26	30	34	29
1980	62	76	23	32	29	44	39	43	48	46
1981	74	88	30	41	38	60	57	58	63	61
1982	90	132	41	51	48	77	74	78	80	70
1983	100	149	52	65	57	88	91	86	91	76
1984	116	186	69	82	68	101	108	99	109	83
1985 (est)	143	210	79	100	80	119	123	116	126	90

same period. Seven of the nine media elements featured CPM increases beyond that of the CPI. The two notable exceptions to this trend are the spot broadcast elements — tv and radio — both exhibiting increases at a slightly lower rate than the CPI.

This decade began, for both daytime and network television elements, with CPM increases that substantially exceeded those of the CPI. When compounded over the entire ten-year period, these collective network increases have led to an overall CPM growth that greatly exceeds inflation. Daytime network television posted an aggregate increase of 143%, and evening network television exhibited an alarming 210% CPM increase, representing the largest increase of all reported media elements. Thus, both network dayparts not only outdistanced inflation, but all other media elements as well. Contrast this television network performance with spot television's increase of only 79%, and it is apparent that the television network/spot CPM relationship has undergone a major change, obviously favoring the spot medium.

In the case of network and spot radio, CPM increases lagged behind inflation for much of the decade. However, in the last few years, radio CPM increases have exceeded the moderate CPI growth rate and are now at comparable levels to that of inflation during that period — 100% for network radio and 80% for spot radio versus 90% for inflation.

The print media and outdoor have closely shadowed the path of inflation through 1981, but with increases in each of these media in the last four years considerably beyond that of the CPI, they ended the decade substantially ahead of inflation. Sunday magazines rose 116%, while newspapers and magazines followed with a 123% and 119% rise respectively. Outdoor closed the decade with a 126% overall rise in media CPM's.

EXHIBIT II

Percent Average Yearly Increase in CPM

	"Boom Years" 1976-79	Calm Between Two Storms 1980-81	"Boom" erang 1982	"Dis" inflation 1983	The Big Gap 1984	"7" 1985
Broadcast						
Day	17	9	9	5	8	12
Evening	14	10	24	7	15	9
Spot	10	8	9	8	11	6
Network Radio	8	8	7	10	10	10
Spot Radio	8	7	6	7	7	7
Print						
Magazines	7	11	11	6	7	9
Sun Mags	8	10	12	5	7	8
Newspapers	9	12	10	10	9	7
Outdoor						
Posters	9	10	12	6	8	8
CPI	8	11	6	3	4	4

Yearly CPM's vs. CPI fluctuations

Throughout the last decade, year-to-year increases in both media efficiencies and the rate of inflation have drastically fluctuated. Comparing the relationship of CPM's to the CPI for all nine media elements on a year-to-year basis enables us to determine if an apparent correlation exists between the two measures. The result, in graphic form, is a mixture of peaks and valleys which dramatically illustrates that there is no apparent correlation between CPM and inflationary growth.

In the past decade, CPM's outpaced the growth in the CPI for all media elements.

Stages in the decade

The beginning of the decade (1976-1979) saw a dramatic rise in media CPM's across all media, especially in television (Exhibit II). These years, in previous studies, have been identified as the "boom" years. Five of the nine media elements analyzed posted higher-than-inflation CPM increases during this four-year period. During the years immediately following (1980-1981), the rate of inflation peaked at an average yearly rate of 11%. However, in the same two-year period, average media CPM increases, especially in the broadcast area, dropped back from the highs of the previous years. Indeed only one media element analyzed in 1980-1981 exceeded the rate of inflation.

Beginning in 1982, it would appear that economic policies, geared toward controlling runaway inflation, began to take hold, and a disinflationary period ensued. With the moderation of CPM increases in 1980-1981 and inflation dropping substantially in 1982, one would have expected another year of stable or declining CPM increases. But in reality this was not the case; 1982 produced in some cases substantial increases in CPM performance. Thus, we characterized 1982 as a "boomerang" year, a banner year for media CPM increases.

With the rate of inflation moderating substantially, all nine media elements either matched or exceeded the CPI growth in this period. In fact, the evening network television CPM increase quadrupled the CPI growth rate.

The following year, 1983, saw continued improvement in the economy and inflation securely contained. The CPI dropped in half from 6% to 3%, the lowest inflationary increase since 1967. Media CPM's finally appeared

EXHIBIT III

Total Advertising Volume and Gross National Product

Year	Ad Volume Millions	Ad Volume % Change	GNP Millions	GNP % Change	Ad Volume As % of GNP
1976	$33,300	19%	$1,718.0	11%	1.94%
1977	37,440	12%	1,918.3	12%	1.95%
1978	43,330	16%	2,163.9	13%	2.00%
1979	48,780	13%	2,417.8	12%	2.02%
1980	53,550	10%	2,631.7	9%	2.03%
1981	60,430	13%	2,957.8	12%	2.04%
1982	66,580	10%	3,069.3	4%	2.17%
1983	75,850	14%	3,304.8	8%	2.30%
1984	87,120	15%	3,680.0	11%	2.37%
1985 (est)	96,700	11%	3,971.0	8%	2.44%

to have responded to the "disinflation" trend in the economy with more moderate increases prevailing. However, despite this slowdown in CPM increases, they still were, in most cases, at least double that of the inflation rate.

1984

The economy in 1984 continued to improve, featured by low levels of unemployment, a moderation in interest rates, and a low inflation rate of 4%. These collectively contributed to a healthy economic environment. Although the economy had now experienced at least three years of moderate inflation (1982-1984), media CPM's in most cases were at least double that of the CPI for the second straight year. With double-digit increases in 1984 for three media elements, the gap between the CPI and CPM's in some instances was widening.

Network television, as usual, continued to lead the pack with a 15% CPM increase in prime time and an 8% increase in daytime. These were considerably higher increases than in the previous year and were partially due to the influence the Olympics and national elections had on the network television marketplace. Spot television also had a larger CPM increase (11%) than the previous year also due in part to increased local activity relating to the Olympics and the national elections. Radio repeated its increases of the previous year — 10% for network and 7% for spot. The print media, consumer and Sunday magazines, both experienced a slight increase to 7%, while newspapers declined to 9%. Outdoor CPM's increased moderately over the previous year to 8%.

1985

This year is expected to be a good year from an inflation standpoint. According to the Conference Board, the CPI is expected to remain steady at a 4% increase, while most media CPM increases reflect little change from 1984. An interesting phenomenon observed in 1985 is that the two network television elements appear to be reversing themselves with daytime network television posting a 12% increase versus 8% in 1984, while the evening network television CPM increase declines substantially from 15% in 1984 to 9% in 1985.

With the Olympics and the national elections eliminated, spot television CPM growth will be virtually halved — 6% CPM increase. Radio is expected to hold the line once again with the same CPM increases as those of the previous year (10% for network and 7% for spot). Magazines and Sunday magazines should see a slight rise to 9% and 8% respectively, while newspapers will post its lowest increases of the decade — 7%. Outdoor should remain constant at an 8% increase.

EXHIBIT IV

National Advertising Volume as a Percent of Total Advertising

Year	Total Millions	National Millions	National As % of Total
1976	$33,300	$9,017	27%
1977	37,440	10,271	27%
1978	43,330	11,794	27%
1979	48,780	13,357	27%
1980	53,550	14,837	28%
1981	60,430	16,625	28%
1982	66,580	18,375	28%
1983	75,850	20,626	27%
1984	87,120	23,510	27%

Total U.S. advertising volume performance

The past decade proved to be a healthy one for advertising volume which outpaced the growth in the GNP for almost every year since 1967 (Exhibit III). The one exception was in 1977 when growth between the two measures was identical. In the beginning of the 1980's, advertising volume increased only slightly more than the GNP. However, in 1982, growth in the GNP declined dramatically, indicative of a "pause" in economic expansion. Advertising volume, apparently unaffected by this decline, continued its double-digit yearly growth rate.

Advertising volume outran growth in the GNP for almost every year since 1967.

The following year, 1983, saw advertising volume again increase — 14%. The growth in the GNP doubled from the previous year to 8%, a clear indication that the economy again was on the upswing. In 1984 both measures posted healthy gains; advertising volume grew 15%, and the GNP increased 11%. Predictions for 1985 call for a slight decline in growth for both advertising volume and GNP, to 11% and 8% respectively, certainly a sign of lower economic expectations for 1986. Advertising volume, as a percentage of

EXHIBIT V

National Advertising Expenditures

Year	Net TV	Spot TV	Mag	Sun Mags	Radio	Out-door	CPI
1976	100	100	100	100	100	100	100
1977	121	102	121	110	110	115	107
1978	139	121	145	115	123	122	116
1979	161	133	164	132	133	141	129
1980	180	152	176	146	154	144	146
1981	195	173	197	168	178	166	161
1982	217	202	207	183	189	185	170
1983	246	223	237	204	214	203	176
1984	284	253	271	224	246	218	183

GNP, has been steadily increasing since the beginning of the decade, reaching 2.37% in 1984 and in 1985 a projected 2.44%, which represents the highest point in the last quarter of a century.

Throughout the decade, the percentage of national advertising expenditures to local expenditures has remained fairly consistent at between 27%-28%, a relationship that is expected to continue in 1985 (Exhibit IV). National advertising expenditures for six broad media categories far exceed the CPI increases of 90% for the decade, from a high of 184% for network television to a low of 188% for outdoor (Exhibit V).

Conclusion

This analysis underscores the dynamic changes in the relative CPM performance of the nine media elements in the last decade. The television network elements, manifesting the largest increase over the last ten years, have today become considerably more expensive, especially in relation to the media elements at the other end of the spectrum, in particular spot television. These shifts in CPM relationships among media elements mandate a continuing reassessment by advertisers/agencies regarding media values and options.

If inflation continues to be controlled, hopefully the decade's historical spread between media increases and CPI will narrow in the future, and advertisers will be offered some relief from escalating CPM trends they have had to contend with in the last decade.

Fred Brandt
Deborah Ellis
Ted Bates' Media Information and Analysis Division

"Here's the deal, Jerry. We won't take any business with us, but we want your back issues of SRDS every month."

Footnote: Tables report trends in index form with 1976, the base year, indexed at 100. These estimates are based on unit costs of 30-seconds for tv and network radio; 60-seconds for spot radio; one page four-color for magazines; milline black and white for newspapers; one-page, four-color for Sunday magazines; and 100 showing for outdoor through 1981; 1982-1985 based on increases in 50 showing. Audience levels and CPM's are based on women 18+ for day network; total persons 2+ for evening network; tv households for spot tv; persons 12+ for radio; circulation for magazines, newspapers and Sunday magazines; and total population for outdoor. Sources for audience information are: network and spot TV — A.C. Nielsen; network radio — "RADAR"; spot radio — Arbitron; magazines — Magazine Publishers Association; newspapers — Newspaper Advertising Bureau; Sunday magazines — Standard Rate and Data; Outdoor — Institute of Outdoor Advertising and estimates. Advertising expenditure and GNP data from Television Bureau of Advertising. Figures for 1985 are Ted Bates' estimates.

Note Regarding CPI: CPI is based on increases in yearly average rather than December to December average as supplied by the Conference Board.